

State of Montana
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2007

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State of Montana
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2007

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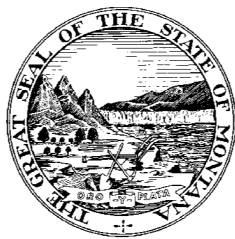
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INTRODUCTORY SECTION



DEPARTMENT OF ADMINISTRATION

DIRECTOR'S OFFICE



BRIAN SCHWEITZER, GOVERNOR

JANET R. KELLY, DIRECTOR

STATE OF MONTANA

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December 21, 2007

To the Citizens, Governor and Members of the Legislature of the State of Montana:

In accordance with Title 17, Chapter 2, Part 110, Montana Code Annotated (MCA), we are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the State of Montana for the fiscal year ended June 30, 2007. Responsibility for the accuracy of the data presented and the completeness and fairness of the presentation rests with the Department of Administration. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds of the State of Montana. All disclosures necessary to enable the reader to gain an understanding of the State's financial activities are included.

DESCRIPTION OF THE CAFR

This report and the accompanying financial statements and statistical tables were prepared in accordance with standards set forth by the Governmental Accounting Standards Board (GASB).

This CAFR is divided into three main sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, an organization chart for the State, and a table of contents. The financial section contains management's discussion and analysis, the independent auditor's report, government-wide financial statements, fund financial statements, notes to the financial statements, combining statements by fund type, and other schedules. The statistical section includes financial, economic, and demographic data.

This report includes all funds of those entities that comprise the State of Montana (the primary government) and its component units. The component units are entities that are legally separate from the State, but for which the State is financially accountable, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body; and (1) the State is able to impose its will on that organization; or (2) there is the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State. The following component units are included in the State's financial reporting entity: Housing Authority, Facility Finance Authority, State Compensation Insurance Fund (Old and New), Montana State University, University of Montana, Public Employees Retirement Board, and Teachers Retirement System. These component units are discretely presented in the State's financial statements.

PROFILE OF THE GOVERNMENT

Montana became the 41st state when it was admitted to the Union in 1889, 25 years after the attainment of territorial status. With an area of 145,552 square miles, Montana is the nation's fourth largest state. With an estimated current population of 944,632, it is also one of the nation's most sparsely populated states. It is a vast land: a land including rolling plains, the Northern Rocky Mountains, two national parks, wheat farms and cattle ranches, tribal lands, and extensive natural resources.

In 1972, a constitutional convention convened, rewriting the State's constitution and establishing the current governmental structure. As shown in the organizational chart on page 13, state government is divided into three separate branches: legislative, executive, and judicial. Montana's Legislature consists of 50 senators and 100 representatives elected from single-member districts. The Legislature meets in regular biennial sessions for 90 days in odd-numbered years. Montana is governed by its constitution, and its laws are administered by its executive branch officers and various

boards and commissions. State government services provided to citizens include building and maintaining roads; providing public safety, health, and environmental protection services to protect the general welfare of the State's citizens; helping adults, children, and families through difficult times such as abuse, divorce, illness, death, and unemployment; fostering an attractive business climate to encourage economic growth; and protecting public lands and natural resources for conservation and recreational activities. The State also provides significant financial support to its higher education institutions, local governments, and school districts to help those entities meet the specific needs of their constituents.

ECONOMIC CONDITION AND OUTLOOK

Montana's economic base remains concentrated in agriculture, mining, wood products and other manufacturing, nonresident travel, and government. Montana's economy continues to grow at a high rate. The current estimated growth rate for Montana's economy in calendar year 2007 is estimated at 4%. This will be the fourth straight year of 4% or better growth for the State. This continued high growth rate is reflected in a strong State financial position at the end of the fiscal year, and the related second quarter 2007 income increases in all sectors of Montana's economy. Montana's income tax revenues continued to increase primarily as a result of this internal income growth. Montana corporate income tax revenues also were higher due to increased profits of intrastate and interstate corporations. For a more in-depth analysis of the impact of this growth on the State's financial position, the reader should refer to Management's Discussion and Analysis and the financial statements contained in this document.

Montana's wheat yields were down slightly in 2007, with production projected to reach 149.8 million bushels, slightly below the State's 2006 production level of 153.1 million bushels. Winter wheat yields were an exception, rising to 83.2 million bushels, 1% higher than the 2006 level. Spring wheat yields reached 55.2 million bushels, down 13% from 2006. Durum production is estimated at 11.4 million bushels, up 70 percent from 2006. The increase in winter wheat production was primarily due to the seeding of more acres. Actual yield per acre of winter wheat seeded was down 5 bushels in 2007. The decrease in spring wheat was due to the seeding of fewer acres, while yields were up slightly by 1 bushel. Durum producers seeded more acreage and obtained 7 bushels more per acre than in 2006. At this time, wheat prices are at record highs in the U.S. due to a drought in Australia and lower production in other wheat producing nations.

Montana's other major agricultural commodities include oats, barley and cattle. Oat and barley production in the Montana increased in 2007. Oat production is estimated at 1.8 million bushels, representing a 65% increase over 2006. Barley production is estimated at 31.7 million bushels, which is 2% higher than last year. Montana's cattle herd decreased slightly in 2007 to an estimated 2.3 million head. Montana continues to rank twelfth in the U.S. cattle and calf industry. Montana's 2006 receipts from cattle sales exceeded \$1.1 billion.

As of the end of calendar year 2005, Montana's manufacturing sector improved for a third year. Employment in this industry increased, with over 27,000 workers employed at the end of 2006, as compared to 25,000 workers at the end of 2004. Employee earnings in the manufacturing industry increased to over \$1.2 billion in 2006. The manufacturing sector increased to \$8 billion in output, up from 5 billion in 2005, and accounts for 20% of Montana's economic base. Production, sales, and earnings were up in 2006, as a result of the strong global economy and strong economies within Montana and the surrounding states.

Prices for lumber and other wood products decreased sharply in 2006. This price decrease continued at a slower pace during 2007. The price decrease, coupled with the unavailability of raw materials, has led to a continuing decline in production. Estimated total sales value of the State's primary wood and paper products in 2006 was \$1.07 billion, down about \$100 million from 2005. The total wood products industry estimated employment of 10,000 workers for 2006 was slightly lower than the estimated 2005 level of 10,200. Montana's estimated lumber production dropped from about 1 billion board feet in 2005 to 940 million board feet in 2006. Montana's timber production decreased during the first half of 2007. The first half of 2007 lumber production level of 426 million board feet represents a 65 million board feet decrease over the same period in 2006.

Nonresident travel to Montana in 2006 increased an estimated 2.5% to approximately 10.3 million visitors. The visitor numbers for Yellowstone and Glacier national parks were up. While Yellowstone Park posted a 1% increase in visitors, Glacier Park saw a 2% increase in the number of visitors. Motel occupancy posted an increase of 5% from the 2005 levels. Current estimates indicate that the travel industry will increase by approximately 2% in 2007. Nonresident travelers contribute to the tax base by paying the lodging tax; excise taxes, such as those on gasoline; and indirectly, by supporting employment in industries that pay corporate taxes and whose workers pay income, property, and other taxes.

Estimated travel expenditures in Montana totaled \$2 billion in 2005, which is a 2% increase from the 2004 level. The direct economic impact of nonresident travel is estimated at \$2.9 billion, up significantly from 2005. Combined with the indirect and induced economic benefits, the economic benefit of nonresident travel on Montana should remain at approximately \$4.0 billion.

An estimated 419 million barrels of proven oil reserves exist under Montana's land. Due to the maintenance of high crude oil and natural gas prices, the State has seen a continuation of the production and exploration activity that began in 2004. This continues to translate into a positive economic impact for the State as a whole and a much needed economic benefit for eastern areas of the State. This high level of oil and natural gas production and exploration activity continues to offset some of the negative impacts that related price increases have on the State's economy. With the oil price increase appearing to be demand rather than supply driven, it appears the additional production and exploration activity may be of a long-term nature. Estimated 2006 crude oil production for the state is 36.3 million barrels.

Historically, metals mining has been a significant part of Montana's economy. While there is no published data on proven reserves for metals mining, Montana has produced copper, molybdenum, lead, zinc, palladium, gold, silver, nickel, chromate, and other metals. The State currently has seven active metals mines producing primarily palladium, platinum, copper, molybdenum, gold, silver, lead, and zinc. These active mines employ over 2,700 employees. With the continued high metals prices driven by world-wide demand, the development of additional metals mines in Montana is occurring. Regulatory and siting issues, a shortage of experienced workers, unavailability of mining supplies, in addition to the high cost of the fuel and power required to extract these metals, has impacted the potential future development in metals mining within the State.

Montana's total coal reserves were estimated at 119,280 million short tons with recoverable reserves of 74,989 million short tons in 2005. This represented 24% of the total, and 28% of the recoverable, reserves in the U.S at that time. Of these reserves 1,234 million short tons of coal are at producing mine sites. During 2006 Montana's coal production grew slightly to 41,823 thousand short tons. The development of a coal-to-liquids plant in Montana is still under consideration. Additionally, siting work is in process for construction of the first new major power transmission line in Montana since the 1970s. Both of these actions represent a move toward the development of value-added processing of coal within the State, in addition to the State's traditional coal mining.

MAJOR INITIATIVES

The 60th Legislature completed the 2008-2009 biennium budget after a May Special Session. Due to a demanding fire season, the Legislature found themselves back in September for a one day Fires Special Session.

The regular session found the general revenue fund exceeding prior estimates due to unforeseen economic growth. Revenue growth can be mainly attributed to individual income tax exceeding projected revenue, but has also been seen in Corporate License Tax, interest earnings, and Oil and Gas Tax. Personal income tax accounts for approximately 45% of general fund revenue.

HB 9, of the May Special session, gave a tax rebate to qualified Montana homeowners, on their primary residence in which they resided at least seven months during 2006, estimated at a cost of nearly \$100 million and an income tax credit that was contingent on revenues for FY 2007 exceeding the estimates. FY 2007 revenues did exceed the estimates and the tax credit has been authorized at approximately \$36 million for FY 2008.

Budget highlights include the following:

Wild Land Fires

In the September 2007 a one day special session authorized the transfer of \$40 million from general fund to state special revenue for wildfire costs. An additional \$42 million was appropriated for the 2007 wildfire season and \$16 million went to restore the Governor's emergency fund.

Retirement systems

Montana resolved its retirement funding issues with two bills:

- The Montana Legislature passed HB 63 to make the Teachers Retirement System (TRS) actuarially sound. The bill infused \$50 million from the state general fund into the plan and increased employer contribution rates. The results of the July 1, 2007 actuarial valuation shows the system now funded on an actuarially sound basis over a

28.6 year period. The annual cost of the TRS increase to the state general fund is anticipated to be approximately \$13 million per year.

- HB 131 was introduced and passed by the 2007 legislative session. In the Public Employee Retirement System (PERS) and sheriffs Retirement System (SRS) the unfunded actuarial liability was addressed by (1) increasing employer contributions and (2) reducing the new Guaranteed Annual Benefit Adjustment (GABA) for new members. The amortization period, as of 6/30/2007 for the two plans, are as follows:

Public Employees Ret. System	21.9 years
Sheriffs Retirement System	19.6 years

Public Education

Additions continued to be made to improve the K-12 funding in the state. K-12 Education was appropriated \$7.5 million in the biennium to Office of Public Instruction (OPI) for new curriculum specialists, K-12 education data system and Indian Education for All (IEFA). An appropriation of \$139.5 million was approved for new proposals for K-12 including: full-time kindergarten, increases in the per educator payment, property tax relief, and a starting a savings fund for school facilities.

A resident tuition cap was negotiated with higher education at a cost of approximately \$50 million. This increase included fully funding the resident student share of the present law adjustments and the pay plan for the Montana University System Education units. In addition, \$4 million was added to the Governor's postsecondary scholarship program, \$1 million started a new teacher loan forgiveness program, and over \$8 million was one-time funding for new program development and other one-time expenditures.

Health and Human Services major initiatives include:

- Children's Health Insurance Program (CHIP) was expanded from 150% of poverty to 175% of poverty.
- Expansion of community mental health services

One-time general fund cash investments in the 2009 biennium include:

- \$49.5 million in information technology systems
- \$147 million in buildings and infrastructure improvements
- \$14.5 million for water compact with the Blackfeet tribe
- \$100 million in one-time tax rebate
- \$36 million one-time tax credit

The pay plan for all executive branch employees was increased by 3% effective October 1, 2007 and October 1, 2008 through HB 13. In addition, a 0.6% discretionary allocation will be distributed to state employees in accordance with agency pay plan rules.

FINANCIAL INFORMATION

Montana's Statewide Budgeting, Accounting, and Human Resource System (SABHRS) is a centrally maintained, fully computerized, double-entry accounting system. SABHRS records are computer-edited.

Management of the State is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the State are protected from loss or misuse, and that adequate accounting data are compiled to allow for the preparation of financial statements in accordance with generally accepted accounting principles. In developing and evaluating the State's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance that the above objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and that the evaluation of costs and benefits requires estimates and judgments by management.

Budgetary restrictions are imposed via appropriations approved by the Legislature or established administratively as provided for by state law. Appropriations are required by state law for the general, state and federal special revenue, and capital projects funds. The level of budgetary control is generally established by fund. SABHRS is designed to provide budgetary control by preventing spending in excess of legislative and administrative authority and/or available cash. SABHRS also provides for encumbrance accounting as a technique for accomplishing budgetary control.

General Fund Balance

The unreserved, undesignated fund balance of the General Fund increased from \$408.6 million at June 30, 2006, to \$549.2 million at June 30, 2007. This represents an increase of \$140.6 million (or 34.4%).

Cash Management

The uniform investment program established by the 1972 Montana Constitution directs that the Board of Investments has sole authority to invest state funds. The board operates under the "prudent person principle", which requires the board to (1) discharge its duties in the same manner as that of a prudent person acting in a like capacity with the same resources and aims; (2) diversify the holdings of each fund to minimize the risk of loss and maximize the rate of return; and (3) discharge duties solely in the interest of, and for the benefit of, the funds managed. Permissible investments include bonds, notes, debentures, equipment obligations, common stock (pension trust and higher education funds only), commercial paper, bankers acceptances, interest bearing deposits in Montana financial institutions, real estate, and any other investment in a Montana business that continues existing jobs or creates new jobs. These investments are subject to statutory restrictions for quality and size of holdings.

Unless otherwise provided by law, treasury cash is pooled for investment regardless of the fund from which it is deposited, and the pool investment earnings are credited to the General Fund. The board reported total investment income from investments under its management of \$376 million, an increase of 7.7% from the \$349 million earned last year. The book value of board-managed investments increased by approximately \$886 million, or 9%, to \$10.7 billion at fiscal year-end 2006. The board publishes an annual audited report of all its investment activity. That report may be referenced for more in-depth investment information.

INDEPENDENT AUDIT

The financial statements contained in Montana's Comprehensive Annual Financial Report were audited in accordance with generally accepted auditing standards by the State's Legislative Audit Division. The Legislative Auditor is appointed by and reports to the Legislative Audit Committee. The Deputy Legislative Auditor issued an unqualified opinion on the State's financial statements for fiscal year 2007.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Montana for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2006. This was the seventeenth year out of eighteen years that the State received this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current CAFR continues to conform to the Certificate of Achievement Program requirements; we are submitting it to GFOA to determine its eligibility for another certificate.


ACKNOWLEDGEMENTS

The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated service of the entire staff of the Accounting Bureau and the cooperation of accounting personnel at the individual state agencies. I would like to express my appreciation to the Accounting Bureau and other agency personnel who participated in the preparation of this document. I would also like to thank the Legislature and all state agencies for their interest and support in planning and conducting the financial operations of Montana in a professionally responsible and progressive manner.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Janet R. Kelly". The signature is fluid and cursive, with the first name "Janet" being more prominent.

Janet R. Kelly, Director
Department of Administration

A handwritten signature in black ink, appearing to read "Paul A. Christofferson". The signature is cursive and somewhat stylized, with a long horizontal stroke at the end.

Paul A. Christofferson, CPA, Administrator
Administrative Financial Services Division
Department of Administration

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Montana

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

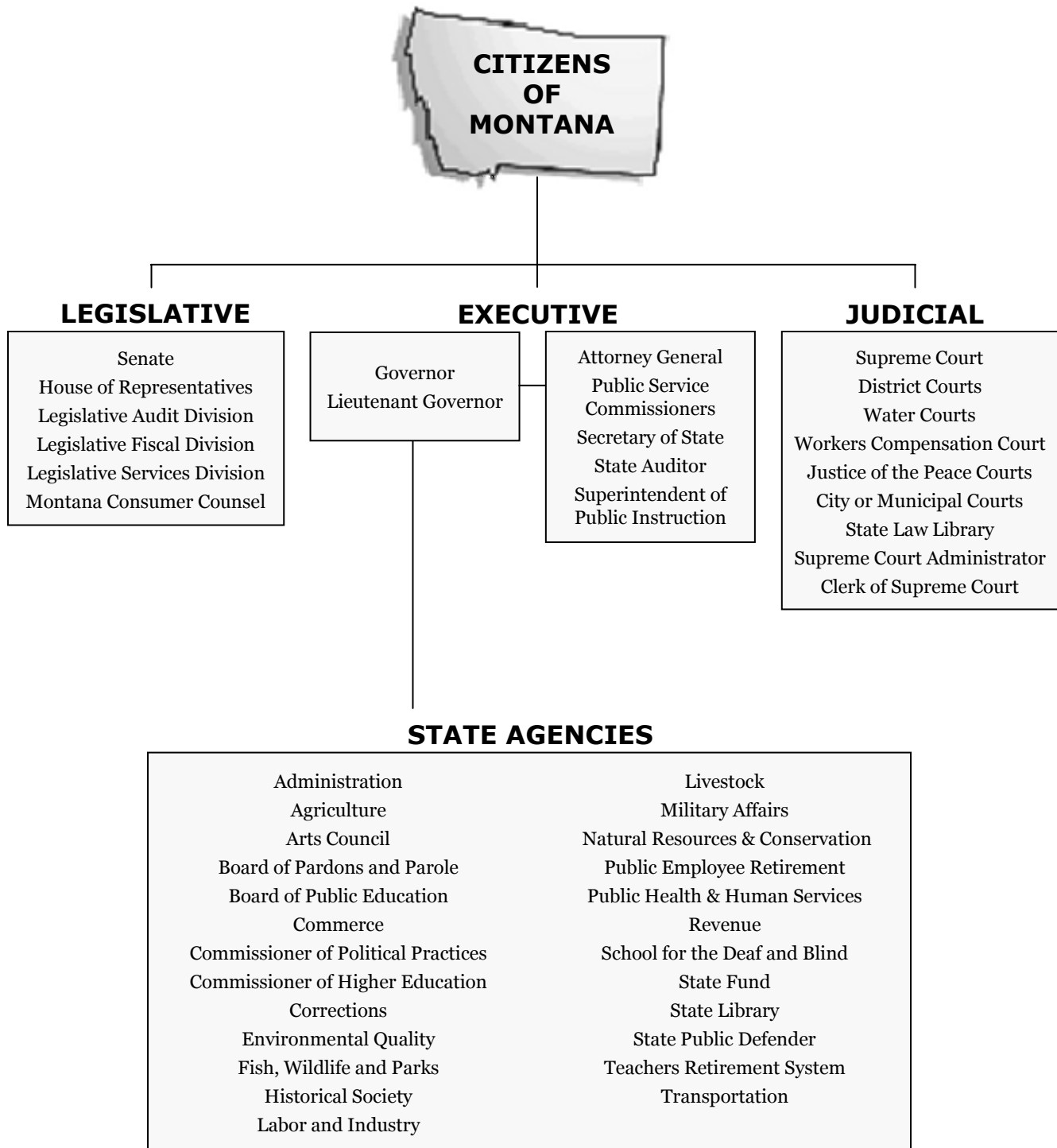
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

STATE OF MONTANA ORGANIZATION CHART



State of Montana
SELECTED STATE OFFICIALS

EXECUTIVE

Brian Schweitzer

Governor

John Bohlinger

Lieutenant Governor

JUDICIAL

Karla Gray

Chief Justice

LEGISLATIVE

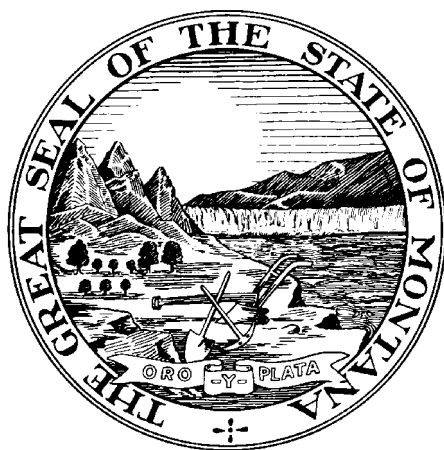
Mike Cooney

President of the Senate

Scott Sales

Speaker of the House

FINANCIAL SECTION



LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:
James Gillett
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of and for the year ended June 30, 2007, which collectively comprise the state's basic financial statements, as follows:

- Statement of Net Assets
- Statement of Activities
- Balance Sheet - Governmental Funds
- Reconciliation of the Balance Sheet - Governmental Funds - to the Statement of Net Assets
- Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
- Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
- Statement of Net Assets - Proprietary Funds
- Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds
- Statement of Cash Flows - Proprietary Funds
- Statement of Fiduciary Net Assets - Fiduciary Funds
- Statement of Changes in Fiduciary Net Assets - Fiduciary Funds
- Combining Statement of Net Assets - Component Units
- Combining Statement of Activities - Component Units

These financial statements are the responsibility of the state of Montana's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Montana State Lottery, which represents .06 and 1.10 percent, respectively, of the assets and revenues of the aggregate remaining fund information. We did not audit the financial statements of the Montana University System Self-Funded Workers' Compensation Program, which represents .08 and .12 percent, respectively, of the assets and revenues of the aggregate remaining fund information. We also did not audit the financial statements of the Montana State University component units and University of Montana component units, which represent 11.54 and 7.35 percent, respectively, of the assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Montana State Lottery, the Montana University System Self-Funded Workers' Compensation Program, and University component units, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the University component units were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial

statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis, the Budgetary Comparison Schedule, and the Pension Plan Information listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the state of Montana's basic financial statements. The Combining Statements and Individual Fund Statements and Schedules listed in the table of contents are for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

In accordance with *Government Auditing Standards*, we have issued our report dated December 28, 2007, on our consideration of the state of Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. It is included in the Legislative Auditor's separately issued report (07-01) on the State's basic financial statements.

The Introductory and Statistical Section listed in the table of contents were not audited by us, and accordingly, we express no opinion on them.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

December 28, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Management of the State of Montana provides this *Management's Discussion and Analysis* of the State of Montana's Comprehensive Annual Financial Report (CAFR) for readers of the State's financial statements. This narrative overview and analysis of the financial activities of the State of Montana is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the additional information that is furnished in the State's financial statements, which follow.

FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

Government-wide Highlights

The assets of the State exceeded its liabilities at the end of fiscal year 2007 by \$6.5 billion (reported as net assets) compared with \$6 billion at the end of fiscal year 2006. Of this amount, \$600.4 million (reported as unrestricted net assets) may be used to meet the government's general obligations to citizens and creditors. Component units reported net assets of \$1,127.3 million compared with \$991.8 million at fiscal year 2006.

Fund Highlights

As of the close of fiscal year 2007, the State's governmental funds reported combined ending fund balances of \$3.1 billion compared with \$2.9 billion at fiscal year 2006. Of this amount, \$544.5 million is available for spending at the government's discretion (reported as unreserved fund balance). The remaining amount of \$2.5 billion is restricted for specific purposes, such as education. At the end of the fiscal year, unreserved fund balance for the General Fund was \$549.2 million compared with \$408.6 million in fiscal year 2006, which is an increase of \$140.6 million (or 34.4%).

The State's business-type activity funds reported net assets at the close of fiscal year 2007 in the amount of \$335.2 million compared with the fiscal year-end 2006 net assets of \$296.9 million. \$314.7 million of the business-type activity fund equity was restricted at fiscal year-end 2007 leaving an unrestricted balance of \$11.8 million. This represents a \$6.7 million (or 36.2%) decrease from the fiscal year-end 2006 business-type activity fund unrestricted net asset balance of \$18.5 million.

Long-term Debt

The State's total bonds and notes payable for governmental activities decreased by \$32.5 million, from \$428.5 million in fiscal year 2006 to \$396 million (or 7.6%) in fiscal year 2007.

Business-type activities reported bonds and notes payable of \$3.1 million at fiscal year-end 2007. This represents a decrease of \$0.8 million (or 20.5%) over the fiscal year-end 2006 reported amount of \$3.9 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the State of Montana's basic financial statements. The State's basic financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The report also contains additional required supplementary information (budgetary schedules). These components are described below:

Basic Financial Statements

The basic financial statements include two kinds of financial statements that present different views of the State – the *government-wide financial statements* and the *fund financial statements and combining major component unit financial statements*. These financial statements also include the *notes to the financial statements* that explain some of the information in the financial statements and provide more detail.

Government-wide Financial Statements

The *government-wide financial statements* provide a broad view of the State's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the State's financial position, which assists in assessing the State's economic condition at the end of the fiscal year. These are prepared using

the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year, even if cash involved has not been received or paid. The government-wide financial statements include two statements.

The *Statement of Net Assets* presents all of the government's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the State's net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the State.

Both of the above financial statements have separate sections for three different types of state programs or activities. These three types of activities are:

Governmental Activities – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal grants). Most services normally associated with state government fall into this category, including education (support for both K-12 public schools and higher education), general government, health services, legal and judiciary services, museums, natural resources, public safety and defense, regulatory services, social services, and transportation.

Business-type Activities – These functions are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The major business-type activities of the State include the Unemployment Insurance Fund and the Economic Development Bond Program that assist Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

Discretely Presented Component Units – These are operations for which the State has financial accountability, but they have certain independent qualities as well. For the most part, these entities operate similarly to private sector businesses and the business-type activities described above. The State has three authorities and two universities that are reported as discretely presented component units of the State.

Fund Financial Statements (Reporting the State's Major Funds)

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus on individual parts of the state government, reporting the State's operations in more detail than the government-wide statements. All of the funds of the State can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted differently. The three categories of funds are:

Governmental Funds Financial Statements – Most of the basic services provided by the State are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the State's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State.

The State has five governmental funds that are considered major funds for presentation purposes. That is, each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The State's five major governmental funds are the General Fund,

the State Special Revenue Fund, the Federal Special Revenue Fund, the Coal Severance Tax Fund, and the Land Grant Fund.

Proprietary Funds Financial Statements – When the State charges customers for the service it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize accrual accounting, the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. An example is the State Lottery. An internal service fund reports activities that provide supplies and services for the State’s other programs and activities such as the Motor Pool.

Fiduciary Funds – These funds are used to account for resources held for the benefit of parties outside state government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the State’s own programs. Fiduciary funds use the accrual basis of accounting. A retirement fund is an example of a fiduciary fund.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the component unit financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule, which includes the reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund, as presented in the governmental fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Montana’s overall financial position improved over the last fiscal year. This improvement was caused by the combination of budgetary cuts enacted in the previous legislative session and stronger than expected statewide economic performance.

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. The State’s combined net assets (government and business-type activities) totaled \$6.5 billion at the end of fiscal year 2007. Net assets of the governmental activities increased \$445.9 million (or 7.8%), and business-type activities had a \$38.3 million (or 12.9%) increase.

A portion of the State’s net assets reflects its investment in capital assets such as land, buildings, equipment and infrastructure (roads, bridges, and other immovable assets) less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State’s net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the State’s ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net assets.

At the end of the current fiscal year, the State is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Net Assets
As of Fiscal Year Ended June 30
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2007	2006	2007	2006	2007
Current and other assets	\$3,562,620	\$3,830,490	\$410,309	\$466,063	\$3,972,929	\$4,296,553
Capital assets	3,240,577	3,402,036	9,110	8,698	3,249,687	3,410,734
Total assets	6,803,197	7,232,526	419,419	474,761	7,222,616	7,707,287
Long-term liabilities	451,014	415,944	9,766	10,212	460,780	426,156
Other liabilities	659,701	678,175	112,724	129,368	772,425	807,543
Total liabilities	1,110,715	1,094,119	122,490	139,580	1,233,205	1,233,699
Invested in capital assets, net of related debt	2,842,708	3,115,260	8,703	8,698	2,851,411	3,123,958
Restricted	2,202,592	2,347,395	269,687	314,722	2,472,279	2,662,117
Unrestricted	647,182	675,752	18,539	11,761	665,721	687,513
Total net assets	\$5,692,482	\$6,138,407	\$296,929	\$335,181	\$5,989,411	\$6,473,588

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the State's net assets changed during the fiscal year:

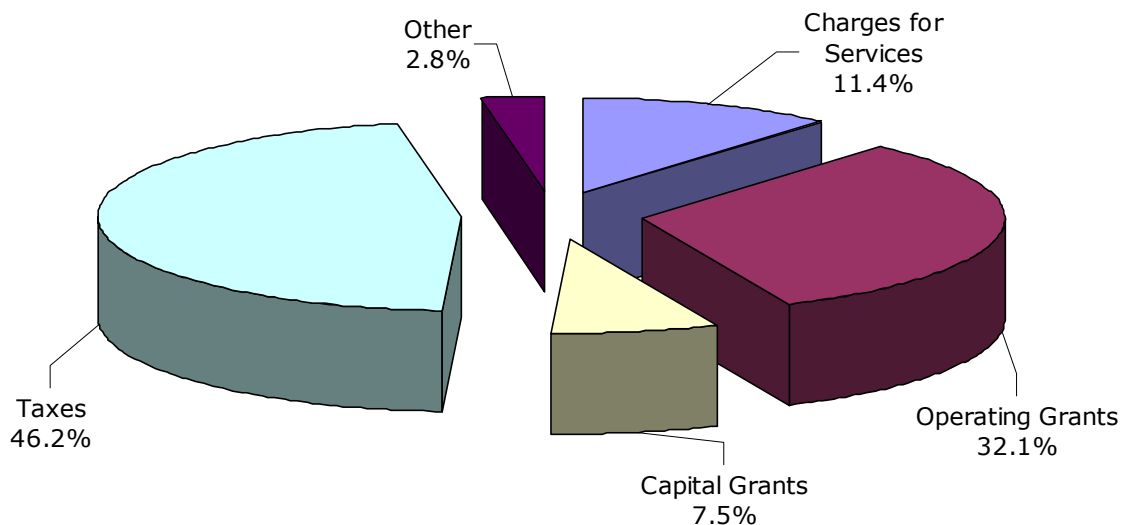
Changes in Net Assets
For Fiscal Year Ended June 30
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2007	2006	2007	2006	2007
Revenues:						
Program revenues						
Charges for services	\$ 487,767	\$ 496,464	\$257,729	\$280,217	\$ 745,496	\$ 776,681
Operating grants	1,371,109	1,395,324	58,051	64,691	1,429,160	1,460,015
Capital grants	305,345	325,352	378	171	305,723	325,523
General revenues						
Taxes	1,871,808	2,006,511	17,317	19,046	1,889,125	2,025,557
Other	73,388	123,669	5,162	2,532	78,550	126,201
Total revenues	4,109,417	4,347,320	338,637	366,657	4,448,054	4,713,977
Expenses:						
General government	525,981	450,646	-	-	525,981	450,646
Public safety/corrections	245,810	293,193	-	-	245,810	293,193
Transportation	216,942	197,510	-	-	216,942	197,510
Health/social services	1,270,056	1,266,098	-	-	1,270,056	1,266,098
Educational/cultural	976,046	1,065,504	-	-	976,046	1,065,504
Resource/rec/enviro	142,460	256,751	-	-	142,460	256,751
Econ dev/assistance	150,449	152,154	-	-	150,449	152,154
Interest on long-term debt	19,569	19,418	-	-	19,569	19,418
Unemployment Insurance	-	-	72,661	72,378	72,661	72,378
Liquor Stores	-	-	50,514	55,521	50,514	55,521
State Lottery	-	-	31,020	30,416	31,020	30,416
Economic Dev Bonds	-	-	3,441	4,167	3,441	4,167
Hail Insurance	-	-	4,632	4,663	4,632	4,663
Gen Govt Services	-	-	51,017	53,851	51,017	53,851
Prison Funds	-	-	5,356	6,487	5,356	6,487
MUS Group Insurance	-	-	52,139	58,532	52,139	58,532
MUS Workers Comp	-	-	2,978	2,647	2,978	2,647
Total expenses	3,547,313	3,701,274	273,758	288,662	3,821,071	3,989,936
Increase (decrease) in net assets before transfers	562,104	646,046	64,879	77,995	626,983	724,041
Transfers	34,802	41,080	(34,802)	(41,080)	-	-
Change in net assets	596,906	687,126	30,077	36,915	626,983	724,041
Net assets, beg of year (restated)	5,095,576	5,451,281	266,852	298,266	5,362,428	5,749,547
Net assets, end of year	\$5,692,482	\$6,138,407	\$296,929	\$335,181	\$5,989,411	\$6,473,588

Governmental Activities

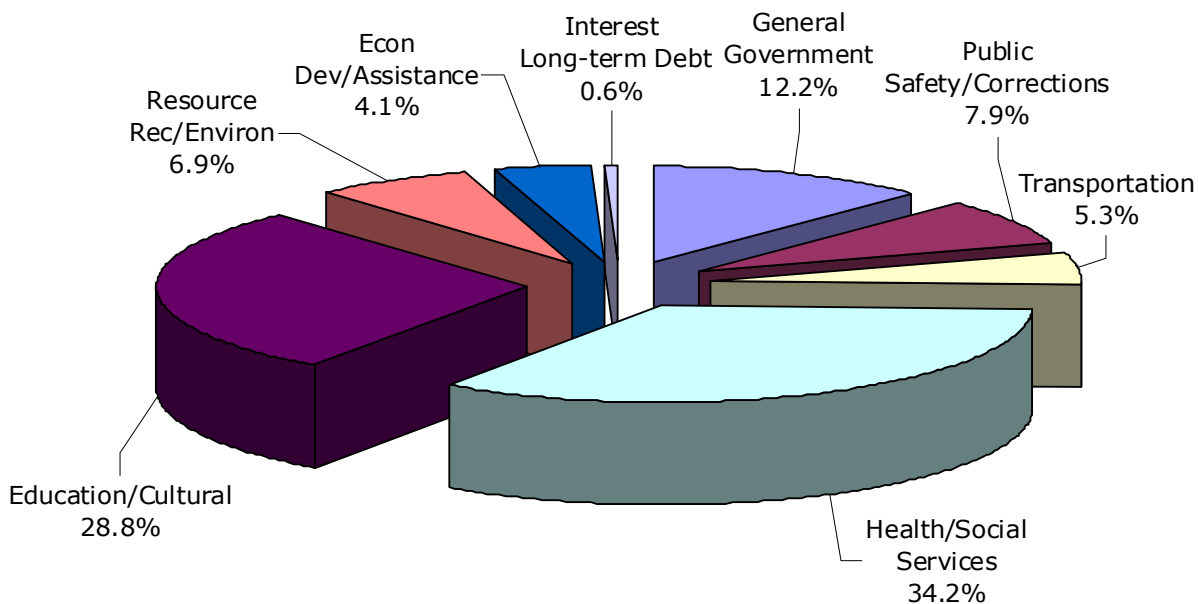
The following chart depicts revenues of the governmental activities for the fiscal year:

Revenues - Governmental Activities
Fiscal Year Ended June 30, 2007



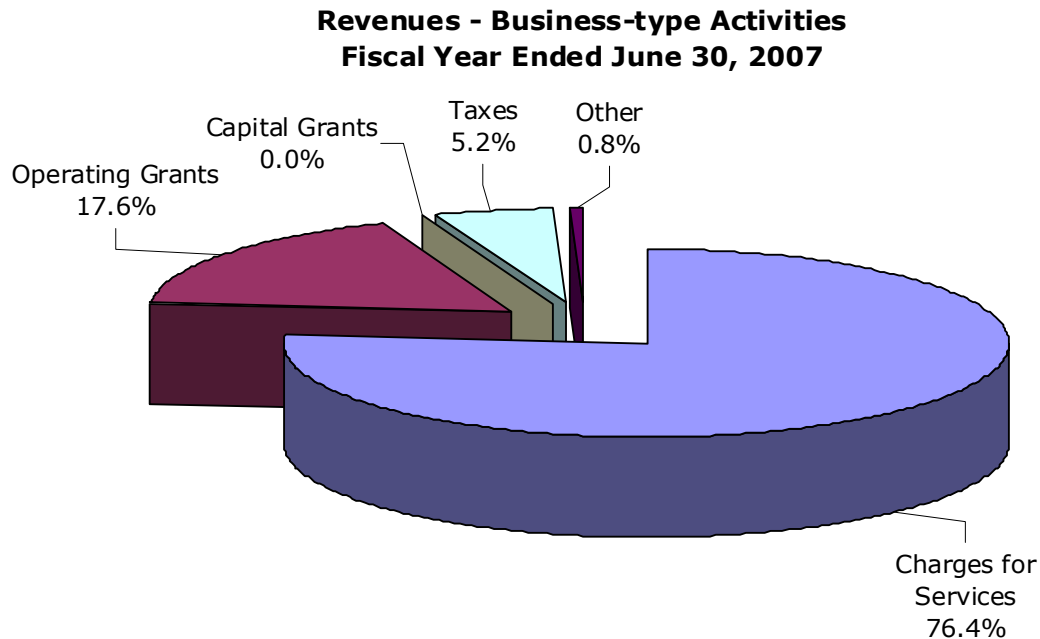
The following chart depicts expenses of the governmental activities for the fiscal year:

Expenses - Governmental Activities
Fiscal Year Ended June 30, 2007

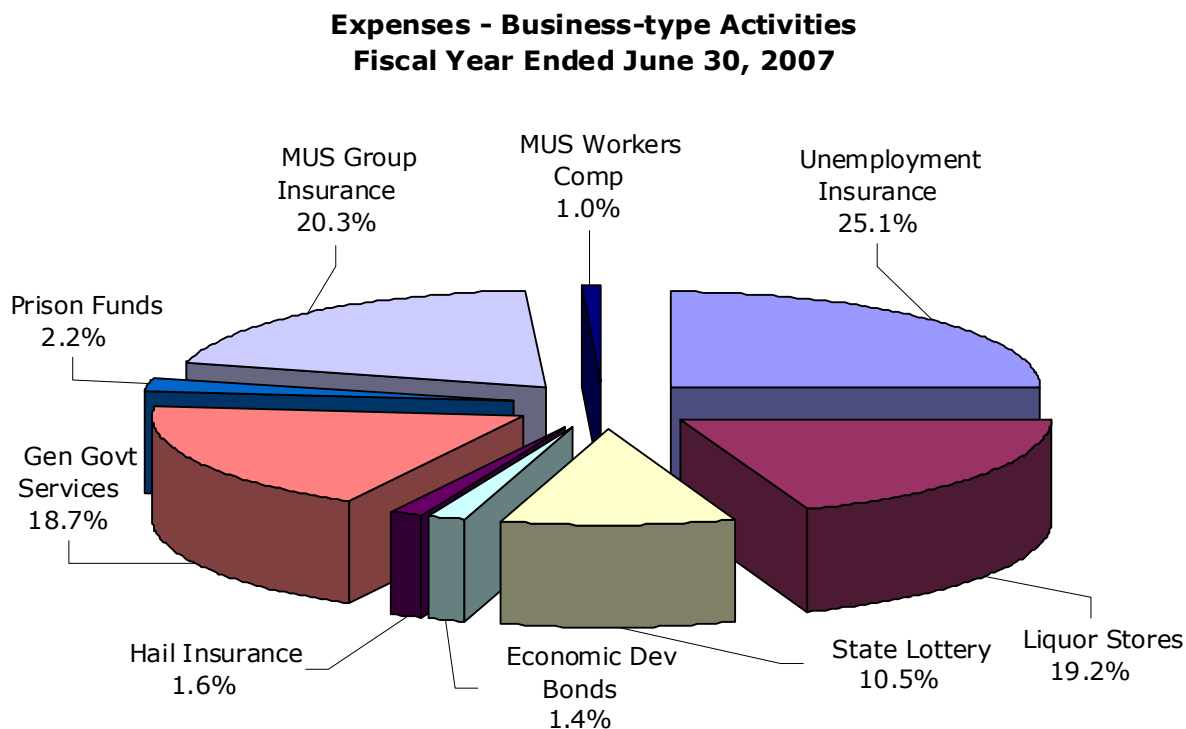


Business-type Activities

The following chart depicts revenues of the business-type activities for the fiscal year:



The following chart depicts expenses of the business-type activities for the fiscal year:



FINANCIAL ANALYSIS OF THE STATE'S MAJOR FUNDS

As the State completed the year, its governmental funds reported fund balances of \$3.1 billion. Of this total amount, \$544.5 million (or 17.6%) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved because it is legally segregated for a specific future use, or is not available for new spending, as it has already been dedicated for various commitments.

General Fund

The General Fund is the chief operating fund of the State. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$549.2 million. The ending General Fund unreserved fund balance was \$90.3 million higher than the anticipated \$458.9 million estimated by the 60th Legislature. Unreserved fund balance increased during the fiscal year by \$140.6 million, primarily because of increases in all tax revenue categories and investment earnings combined with under-spent budget authority and program expenditure increases as discussed below.

Higher Revenues Than Anticipated – Total General Fund revenue, including transfers; was \$1,845 million for fiscal year 2007. This is \$129.9 million (7.6%) more than fiscal year 2006, and \$69.4 million (3.9%) more than was projected for fiscal year 2007. The increase in revenue from fiscal year 2006 to fiscal year 2007 was primarily a result of increased revenue from taxes, including individual income, property, corporate license, and oil/natural gas production, and treasury cash account interest earnings. Within the tax category, individual and corporate income tax revenue increased \$61.1 and \$24.2 million, respectively. Continued economic growth within Montana and a strong investment market contributed to this income tax growth.

As noted above, total collections for fiscal year 2007 were \$69.4 million over the official forecast. Individual income tax exceeded the revenue estimate by \$33.2 million. Corporate income tax exceeded the estimate by \$16.4 million; oil and natural gas taxes exceeded the estimate by \$10.1 million; and treasury cash account interest earning exceeded the estimate by \$6.5 million. These four revenue sources account for 95.4% of the \$69.4 million difference. Individual and corporate income taxes account for 71.5% of the difference. Two other categories, lottery (\$3.1 million) and coal trust interest earnings (\$2.4 million), had differences that exceeded \$2 million.

General Fund Expenditure Budgets – General Fund expenditures were lower than appropriated by nearly \$53 million. This was primarily caused by:

- School funding - \$22.4 million was due to a biennial reversion of school funding appropriations resulting from an increase in mineral revenues in the guarantee account which offset the need for general fund expenditures, lower expenditures for school facilities (\$3 million) due to fewer schools than anticipated qualified for facilities funding, and other minor reversions. Most of this reverted authority was anticipated during the legislative session.
- The Department of Health and Human Services reverted authority from the supplemental in the amount of \$5.4 million primarily due to lower Medicaid costs than anticipated during the legislative session.
- The Department of Corrections reverted authority from supplemental appropriations in the amount of \$4.6 million due to less than anticipated demand for secure care beds.
- The Commissioner of Higher Education reverted \$4.2 million in authority, primarily due to fewer resident students attending Montana schools than anticipated.
- The Department of Natural Resources and Conservation did not require as much supplemental funding as originally anticipated to cover the fiscal year 2007 fire season.
- The Legislative Branch (\$3.6 million) and the Long-Range Building (\$2.5 million) program both spent less than appropriated in fiscal year 2007, but most of these amounts will be carried forward in to the next biennium as these appropriations are continuing.

General Fund Expenditures – Overall General Fund expenditures increased by \$83.6 million (or 5.4%). This increase and offsetting decreases are summarized below:

- The \$89.9 million (or 16.8%) increase in the education/cultural function was primarily due to increased payments for the support of K-12 schools.
- The \$70.8 million (or 22.8%) decrease in the general government function was primarily due to a decrease in one-time-only payments designed to actuarially fund the Teachers and Public Employee retirement systems.
- Within the public safety/corrections function, the increase of \$28.7 million (or 18.1%) was caused primarily by increases of \$18.6 million within the Public Defenders Office, which became fully functional in 2007, and \$6.5 million in the corrections function.

- The \$30.4 million (or 109.7%) increase in the resource/recreation/environmental function was primarily the result of the costs of fighting fires in a very active 2007 firefighting season.

State Special Revenue Fund

At the end of the current fiscal year, the fund balance of the State Special Revenue Fund was \$984.4 million. Fund balance increased during the fiscal year by \$47.5 million (or 5.1%).

In the State Special Revenue Fund, investment income increased by \$21.8 million (or 140.9%), other tax revenues by \$5.9 million (or 7.2%) as discussed in Note 1, and licenses and permits by \$21.5 million (or 16.5%). These increases account for 95.4% of the overall \$51.4 million increased revenue in the fund.

Expenditures within the State Special Revenue Fund increased by \$13.8 million (or 1.6%). Within the State Special Revenue Fund, expenditures increased \$18.8 million in the general government function. This primarily was due to:

- Increased oil production tax distributions of \$5.9 million to the counties and an increase to Insure Montana providing accessibility to health insurance for the State's small employers within the general government function.
- A decrease in education/cultural functional expenditures by \$17.7 million as a result of less common school trust interest and income revenues.
- Increases in the Big Sky RX program of \$2.9 million, a \$3.7 million increase resulting from the Nursing Home bed tax rate, and \$3.5 million in increased Medicaid spending in the health and social services function.
- A decrease in transportation expenditures of \$10.1 million as the result of internal funding adjustments.

Federal Special Revenue Fund

Fund balance in the Federal Special Revenue Fund decreased by \$4.6 million (or 16.7%).

Overall revenues or expenditures did not increase significantly in the Federal Special Revenue Fund during fiscal year 2007. Significant changes within the functional categories were caused by (1) Transportation - increased federal highway construction expenditures of \$31.8 million due to internal funding adjustments; (2) General Government - decreases in Montana Votes Montana Database and voting systems - \$7.0 million and Public Safety Communications - \$2.9 Million; (3) Health and Social Services - decrease of \$25.7 million caused by decreased estimated Medicaid incurred but unpaid claims.

Coal Severance Tax Permanent Fund

Reserved fund balance in the Coal Severance Tax Permanent Fund increased by \$25.9 million (or 3.5%). This was primarily caused by decreases in natural resource taxes of \$3.2 million (or 19.2%) and increased investment income of \$30.9 million (or 221.2%).

Land Grant Permanent Fund

Reserved fund balance in the Land Grant Permanent Fund increased by \$11.7 million (or 2.7%). This was caused by an increase in investment income of \$26.5 million (or 973.0%) due to the fund's increased investment valuation. Rentals, leases, and royalties income decreased by \$11.7 million (or 18.8%) primarily as a result of decrease in oil and gas bonus receipts of \$11 million and timber revenues of \$5.5 million. Most other land grant revenues increased as the result of higher natural resource production (other than timber) from the related state lands during 2007.

Unemployment Insurance Enterprise Fund

Net assets restricted for unemployment compensation increased by \$29.9 million (or 12.9%). Unemployment premium collections increased by \$6.9 million (or 9.0%). Unemployment benefits paid increased by \$3.0 million. The large increase in unemployment collections offset the small increase in unemployment benefits paid and contributed to the increase in net assets. This was reflective of Montana's continued strong economy during 2007.

Economic Development Bonds Enterprise Fund

Net assets decreased by \$0.7 million in fiscal year 2007. This decrease was the result of a \$0.9 million transfer from the fund to the Board of Investment's investment account. No transfers were made in fiscal year 2006. Operating activity within this fund also did not change significantly during the year.

General Governmental Functions

Revenue sources for general governmental functions, which include the general, special revenue, debt service, capital projects, and permanent funds, increased 5.3% from fiscal year 2006 to fiscal year 2007. Revenues from various sources

for fiscal year 2007, and the amount and percentage of increases and decreases in relation to prior year revenues are shown in the following table (amounts in thousands):

Revenue Source	Amount	2007 Percent of Total	Increase (Decrease) from 2006	Percent Increase (Decrease)
Licenses/permits	\$ 285,890	6.6%	\$ 26,817	10.4
Taxes	2,009,620	46.4	128,782	6.8
Chg srv/finest/forfeits/settle	160,571	3.7	(1,949)	(1.2)
Investment earnings	171,047	4.0	108,070	171.6
Securities lending income	5,339	0.1	(2,172)	(28.9)
Sales doc/merch/property	20,460	0.5	(952)	(4.4)
Rentals/leases/royalties	51,442	1.2	(11,876)	(18.8)
Contributions/premiums	9,240	0.2	455	5.2
Grants/contracts/donations	25,362	0.6	(625)	(2.4)
Federal	1,504,595	34.8	(26,200)	(1.7)
Federal indir cost rcvly	81,611	1.9	(311)	(0.4)
Other revenues	2,701	0.0	(1,992)	(42.4)
Total revenues	\$4,327,878	100.0%	\$218,047	5.3%

Total expenditures for all governmental functions increased 2.8% from fiscal year 2006 to fiscal year 2007. Expenditures by function for fiscal year 2007, and the amount and percentage of increases or decreases in relation to the previous year amounts are depicted in the table below:

Expenditure Function	Amount (in thousands)	2007 Percent of Total	Increase (Decrease) from 2006	Percent Increase (Decrease)
General government	\$ 401,331	9.7%	\$(65,555)	(14.0)%
Public safety/corrections	284,777	6.9	30,396	11.9
Transportation	575,157	13.9	15,462	2.8
Health/social services	1,267,854	30.7	(7,093)	(0.6)
Education/cultural	1,050,239	25.4	73,793	7.6
Resource/recreation/environment	247,090	6.0	42,677	20.9
Economic development/assistance	152,442	3.7	1,422	0.9
Securities lending	5,261	0.1	(2,402)	(31.3)
Debt service	52,183	1.3	(1,108)	(2.1)
Capital outlay	95,834	2.3	26,329	37.9
Total expenditures	\$4,132,168	100.0%	\$113,921	2.8%

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2007, amounts to \$5.2 billion, net of accumulated depreciation of \$1.8 billion, leaving a net book value of \$3.4 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the State's investment in capital assets for the current fiscal year was approximately 3.0% in terms of net book value. Most of the year's capital expenditures were for construction or reconstruction of roads and bridges. Additional information on the State's capital assets can be found in Note 5 of the notes to the financial statements.

Debt Administration

Montana receives excellent general obligation bond ratings from both Moody's Investor Service (Aa2), Standard and Poor's Corporation (AA- with a positive outlook) and Fitch Ratings (AA). The State received bond rating upgrades from Moody's and Fitch in 2007. These are the first bond rating upgrades for the State's general obligation debt in 26 years.

State debt may be authorized either by a two-thirds vote of the members of each house of the Legislature or by a favorable vote of a majority of the State's electors voting thereon. There is no constitutional limit on the amount of debt

that may be incurred by the State. The Montana Constitution does, however, prohibit the incurring of debt to cover deficits caused by appropriations exceeding anticipated revenue.

The State of Montana's general obligation debt decreased from \$230.1 million at June 30, 2006, to \$208 million at June 30, 2007.

The ratio of general obligation debt to personal income and the amount of general obligation debt per capita are:

	Amount <i>(in thousands)</i>	Percentage of Personal Income (1)	State Debt Per Capita (2)
General obligation debt	\$208,015	0.71%	\$219.55

(1) Personal income is for calendar year 2006.

(2) Based on estimated 2007 Montana population.

More detailed information regarding the State's long-term obligations is presented in Note 11 to the financial statements.

ECONOMIC CONDITION AND OUTLOOK

The unemployment rate for the State of Montana was 2.4% in the second quarter of 2007, which is a slight improvement from the rate of 3.1% during the second quarter of 2006. This compares favorably with the nation's average unemployment rate of 4.5% during the same time period. As of October 2007, the State's rate has risen to 3.1%.

The 60th Legislative Session adjourned on April 27, 2007, without passing a general appropriations act. The legislature was reconvened in special session on May 10, and adjourned upon the completion of business, including the passage of a general appropriations act, on May 15. After completion of the regular and special sessions, the projected unreserved General Fund balance for the 2009 biennium is \$183.8 million. During fiscal year 2007, economic conditions continued to improve with the unreserved General Fund balance, as of June 30, 2007, ending at the \$549.2 million level.

A second special session of the legislature was called to order to address forest fire suppression funding issues. This session was called to order, passed related legislation, and adjourned on September 5, 2007. The laws resulting from the session provided for a \$40 million transfer from the General to the State Special Revenue Fund, with future transfers from the General Fund required at the beginning of each fiscal year to maintain the \$40 million balance in the State Special Revenue Fund, with this money restricted to be used only for fire suppression costs. The long term impact of these transactions on the General Fund should be zero since the General Fund paid for these fire costs in the past, and will continue to either pay for costs in excess of the amount transferred, or transfer additional money to the State Special Revenue Fund for expenditure.

The State's retirement systems are actuarially sound as of fiscal year end 2007. This represents a significant improvement over the previous fiscal year, and is largely a result of actions taken by the executive and legislative branches.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State of Montana's finances for all of Montana's citizens, taxpayers, customers, investors, and creditors. The financial report seeks to demonstrate the State's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the State of Montana, Administrative Financial Services Division, Room 255 Mitchell Building, Capitol Complex, Helena, MT 59620.

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

JUNE 30, 2007

(amounts expressed in thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
ASSETS				
Cash/cash equivalents (Note 3)	\$ 1,298,950	\$ 360,741	\$ 1,659,691	\$ 246,848
Receivables (net)	333,601	35,626	369,227	98,053
Due from primary government	-	-	-	4,017
Due from other governments	170,025	907	170,932	21,914
Due from component units	1,860	4,167	6,027	1,043
Internal balances	(8,857)	8,857	-	-
Inventories	29,836	7,443	37,279	4,577
Advances to component units	8,722	5,184	13,906	-
Long-term loans/notes receivable	250,866	32,820	283,686	826,208
Equity in pooled investments (Note 3)	1,362,728	-	1,362,728	21,468
Investments (Note 3)	294,008	6,351	300,359	1,483,274
Securities lending collateral (Note 3)	75,304	474	75,778	161,058
Deferred charges	3,652	1,535	5,187	11,224
Capital assets (net) (Note 5)	3,402,036	8,698	3,410,734	571,618
Other assets	9,795	1,958	11,753	34,010
Total assets	7,232,526	474,761	7,707,287	3,485,312
LIABILITIES				
Accounts payable	433,584	10,968	444,552	63,707
Lottery prizes payable	-	2,706	2,706	-
Due to primary government	-	-	-	6,027
Due to other governments	2,697	53	2,750	54
Due to component units	4,010	7	4,017	1,043
Advances from primary government	-	-	-	13,906
Deferred revenue	32,289	6,320	38,609	31,728
Amounts held in custody for others	34,985	649	35,634	48,562
Securities lending liability (Note 3)	75,304	474	75,778	161,058
Other liabilities	2,055	-	2,055	3,670
Short-term debt (Note 11)	-	98,460	98,460	-
Long-term liabilities (Note 11):				
Due within one year	93,251	9,731	102,982	195,714
Due in more than one year	415,944	10,212	426,156	1,832,513
Total liabilities	1,094,119	139,580	1,233,699	2,357,982

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
NET ASSETS				
Invested in capital assets, net of related debt	\$ 3,115,260	\$ 8,698	\$ 3,123,958	\$ 325,019
Restricted for:				
Transportation	79,816	-	79,816	-
Fish, wildlife, and parks	79,714	-	79,714	-
Federal grants	24,573	-	24,573	-
Debt service/construction	33,264	-	33,264	24,086
Unemployment compensation	-	261,618	261,618	-
Funds held as permanent investments:				
Nonexpendable	1,414,841	-	1,414,841	211,459
Expendable	21,014	-	21,014	-
Housing authority	-	-	-	146,186
Resource/environment	621,245	-	621,245	-
Other purposes	72,928	53,104	126,032	141,153
Unrestricted	675,752	11,761	687,513	279,427
Total net assets	\$ 6,138,407	\$ 335,181	\$ 6,473,588	\$ 1,127,330

The notes to the financial statements are an integral part of this statement.

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

(amounts expressed in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
Primary government:					
Governmental activities:					
General government	\$ 450,646	\$ 61,713	\$ 50,974	\$ 1,583	\$ (336,376)
Public safety/corrections	293,193	153,577	54,461	-	(85,155)
Transportation	197,510	34,963	34,290	316,716	188,459
Health/social services	1,266,098	30,547	874,617	-	(360,934)
Education/cultural	1,065,504	96,903	185,491	304	(782,806)
Resource/recreation/environment	256,751	80,320	124,397	5,655	(46,379)
Economic development/assistance	152,154	38,441	71,094	1,094	(41,525)
Interest on long-term debt	19,418	-	-	-	(19,418)
Total governmental activities	3,701,274	496,464	1,395,324	325,352	(1,484,134)
Business-type activities:					
Unemployment Insurance	72,378	83,661	18,556	-	29,839
Liquor Stores	55,521	63,943	-	-	8,422
State Lottery	30,416	41,567	-	-	11,151
Economic Development Bonds	4,167	22	4,306	-	161
Hail Insurance	4,663	6,042	560	-	1,939
General Government Services	53,851	18,176	38,785	171	3,281
Prison Funds	6,487	5,600	-	-	(887)
MUS Group Insurance	58,532	57,159	2,142	-	769
MUS Workers Compensation	2,647	4,047	342	-	1,742
Total business-type activities	288,662	280,217	64,691	171	56,417
Total primary government	\$ 3,989,936	\$ 776,681	\$ 1,460,015	\$ 325,523	\$ (1,427,717)
Component units:					
Housing Authority	\$ 49,114	\$ 380	\$ 54,973	\$ -	\$ 6,239
Facility Finance Authority	324	584	143	-	403
State Compensation Insurance (New Fund)	259,663	238,282	-	-	(21,381)
State Compensation Insurance (Old Fund)	13,750	2	-	-	(13,748)
Montana Surplus Lines	543	613	-	-	70
Montana State University	410,657	170,960	168,314	15,257	(56,126)
University of Montana	326,068	153,898	107,890	8,150	(56,130)
Total component units	\$ 1,060,119	\$ 564,719	\$ 331,320	\$ 23,407	\$ (140,673)

The notes to the financial statements are an integral part of this statement.

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
Changes in net assets:				
Net (expense) revenue	\$ (1,484,134)	\$ 56,417	\$ (1,427,717)	\$ (140,673)
General revenues:				
Taxes:				
Property	206,527	-	206,527	-
Fuel	210,573	-	210,573	-
Natural resource	276,793	-	276,793	-
Individual income	819,473	-	819,473	-
Corporate income	183,913	-	183,913	-
Other	309,232	19,046	328,278	-
Unrestricted grants and contributions	3,911	-	3,911	106
Settlements	27,853	10	27,863	-
Unrestricted investment earnings	78,032	569	78,601	110,622
Payment from State of Montana	-	-	-	153,986
Gain on sale of capital assets	10,823	-	10,823	182
Miscellaneous	3,050	1,953	5,003	-
Contributions to term and permanent endowments	-	-	-	11,313
Transfers	41,080	(41,080)	-	-
Total general revenues, contributions, and transfers	2,171,260	(19,502)	2,151,758	276,209
Change in net assets	687,126	36,915	724,041	135,536
Total net assets - July 1 - as previously reported	5,692,482	296,930	5,989,412	991,824
Prior period adjustments (Note 2)	(241,201)	1,336	(239,865)	(30)
Total net assets - July 1 - as restated	5,451,281	298,266	5,749,547	991,794
Total net assets - June 30	\$ 6,138,407	\$ 335,181	\$ 6,473,588	\$ 1,127,330

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

General Fund

This fund is the principal operating fund of the State. It accounts for all governmental financial resources, except for those required to be accounted for in another fund.

State Special Revenue Fund

This fund accounts for all activities funded from state sources, which are restricted either legally or administratively for particular costs of an agency, program, or function.

Federal Special Revenue Fund

This fund accounts for activities funded from federal sources used in the operation of state government.

Coal Severance Tax Fund

This fund, created by Article IX, Section 5, of the Montana Constitution and administered by the Department of Revenue, receives 50% of all coal tax collections. The principal can be expended only upon affirmative vote by three-fourths of each house of the Legislature.

Land Grant Fund

This fund is used by the Department of Natural Resources and Conservation to account for lands granted to the State for support of public schools and state institutions.

Nonmajor Funds

Nonmajor governmental funds are presented, by fund type, beginning on page 128.

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2007

(amounts expressed in thousands)

	SPECIAL REVENUE			PERMANENT		NONMAJOR	TOTAL
	GENERAL	STATE	FEDERAL	COAL SEVERANCE TAX	LAND GRANT		
ASSETS							
Cash/cash equivalents (Note 3)	\$ 517,244	\$ 522,661	\$ 40,519	\$ 52,102	\$ 17,289	\$ 73,829	\$ 1,223,644
Receivables (net) (Note 4)	184,636	115,163	10,141	8,641	4,731	5,235	328,547
Interfund loans receivable (Note 12)	33,717	33,241	724	-	-	-	67,682
Due from other governments	25,053	1,927	143,037	-	-	-	170,017
Due from other funds (Note 12)	71,186	16,896	603	-	431	41	89,157
Due from component units	229	1,079	142	80	-	-	1,530
Inventories	5,033	22,294	-	-	-	-	27,327
Equity in pooled investments (Note 3)	-	233,153	-	483,231	429,615	216,728	1,362,727
Long-term loans/notes receivable	198	221,971	385	-	-	28,313	250,867
Advances to other funds (Note 12)	3,950	15,439	-	14,326	-	2,916	36,631
Advances to component units	-	-	-	8,722	-	-	8,722
Investments (Note 3)	15,116	60,353	3,161	204,074	-	6,557	289,261
Securities lending collateral (Note 3)	-	22,818	-	21,397	19,023	11,521	74,759
Other assets	2,199	6,724	313	-	-	-	9,236
Total assets	\$ 858,561	\$ 1,273,719	\$ 199,025	\$ 792,573	\$ 471,089	\$ 345,140	\$ 3,940,107
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable (Note 4)	170,823	120,194	103,372	-	4,537	3,832	402,758
Interfund loans payable (Note 12)	-	15,124	50,831	-	-	42	65,997
Due to other governments	47	975	1,675	-	-	-	2,697
Due to other funds (Note 12)	9,012	54,881	2,716	6,849	7,031	2,331	82,820
Due to component units	16,996	1,658	1,816	-	418	2	20,890
Advances from other funds (Note 12)	-	30,776	1,893	-	-	14,271	46,940
Deferred revenue	70,202	28,607	13,557	-	-	337	112,703
Amounts held in custody for others	21,825	12,839	242	-	78	-	34,984
Securities lending liability (Note 3)	-	22,818	-	21,397	19,023	11,521	74,759
Other liabilities	-	1,409	-	-	-	-	1,409
Total liabilities	288,905	289,281	176,102	28,246	31,087	32,336	845,957
Fund balances:							
Reserved for:							
Encumbrances	10,329	17,987	265	-	-	8	28,589
Inventories	5,033	22,294	-	-	-	-	27,327
Long-term loans/notes receivable	198	221,971	385	-	-	28,313	250,867
Advances to other funds/component units	3,950	15,439	-	23,048	-	2,916	45,353
Special revenue (Note 14)	-	749,184	28,128	-	-	-	777,312
Debt service	-	-	-	-	-	4,599	4,599
Trust principal (Note 14)	-	-	-	741,279	440,002	233,313	1,414,594
Escheated property	988	-	-	-	-	-	988
Unreserved, designated, reported in nonmajor (Note 1):							
Debt service funds	-	-	-	-	-	10,331	10,331
Unreserved, undesignated	549,158	(42,437)	(5,855)	-	-	-	500,866
Unreserved, undesignated, reported in nonmajor:							
Debt service funds	-	-	-	-	-	(4,411)	(4,411)
Capital projects funds	-	-	-	-	-	37,735	37,735
Total fund balances	569,656	984,438	22,923	764,327	440,002	312,804	3,094,150
Total liabilities and fund balances	\$ 858,561	\$ 1,273,719	\$ 199,025	\$ 792,573	\$ 471,089	\$ 345,140	\$ 3,940,107

The notes to the financial statements are an integral part of this statement.

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS**

JUNE 30, 2007

(amounts expressed in thousands)

Total fund balances for governmental funds	\$ 3,094,150
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.

Land	416,193	
Land improvements	21,547	
Buildings/improvements	390,911	
Equipment	83,169	
Infrastructure	3,509,995	
Other capital assets	159,791	
Construction in progress	348,098	
Intangible assets	28,121	
Less accumulated depreciation	<u>(1,647,082)</u>	
Total capital assets		3,310,743

Certain revenues are earned, but not available and therefore deferred in the funds.	81,445
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Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.	130,944
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Deferred issue costs are reported as current expenditures in the funds. These costs are amortized over the life of the bonds and included in governmental activities in the statement of net assets.	3,652
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Accrued interest	(5,652)	
Lease/installment purchase payable	(1,057)	
Bonds/notes payable (net)	(395,967)	
Compensated absences payable	(78,793)	
Early retirement benefits payable	(48)	
Arbitrage rebate tax payable	(364)	
Other liabilities	<u>(646)</u>	
Total long-term liabilities		<u>(482,527)</u>

Net assets of governmental activities	<u>\$ 6,138,407</u>
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The notes to the financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2007
 (amounts expressed in thousands)

	SPECIAL REVENUE			PERMANENT		NONMAJOR	TOTAL
	GENERAL	STATE	FEDERAL	COAL SEVERANCE TAX	LAND GRANT		
REVENUES							
Licenses/permits	\$ 133,205	\$ 151,236	\$ -	\$ -	\$ 1,018	\$ 431	\$ 285,890
Taxes:							
Natural resource	118,864	130,073	-	20,186	-	6,289	275,412
Individual income	828,452	-	-	-	-	-	828,452
Corporate income	177,852	-	-	-	-	-	177,852
Property	191,075	15,451	-	-	-	-	206,526
Fuel	-	210,559	-	-	-	14	210,573
Other (Note 1)	221,030	87,710	-	-	-	2,065	310,805
Charges for services/fines/forfeits/settlements	32,093	85,857	31,061	-	-	11,560	160,571
Investment earnings	34,901	37,210	1,050	44,713	29,229	23,944	171,047
Securities lending income	2,220	1,109	1	844	761	404	5,339
Sale of documents/merchandise/property	366	2,943	6	-	14,086	3,059	20,460
Rentals/leases/royalties	29	826	-	-	50,456	131	51,442
Contributions/premiums	-	9,240	-	-	-	-	9,240
Grants/contracts/donations	2,654	23,276	(687)	-	119	-	25,362
Federal	28,024	10,752	1,465,819	-	-	-	1,504,595
Federal indirect cost recoveries	82	31,002	50,527	-	-	-	81,611
Other revenues	1,301	1,520	(120)	-	-	-	2,701
Total revenues	1,772,148	798,764	1,547,657	65,743	95,669	47,897	4,327,878
EXPENDITURES							
Current:							
General government	240,408	156,834	4,089	-	-	-	401,331
Public safety/corrections	186,569	50,182	43,817	-	-	4,209	284,777
Transportation	290	270,094	304,773	-	-	-	575,157
Health/social services	317,091	91,437	859,326	-	-	-	1,267,854
Education/cultural	789,124	75,122	182,295	-	3,692	6	1,050,239
Resource/recreation/environment	58,048	124,931	64,070	-	-	41	247,090
Economic development/assistance	28,103	67,579	56,760	-	-	-	152,442
Debt service:							
Principal retirement	460	383	206	-	-	32,054	33,103
Interest/fiscal charges	52	863	35	-	-	18,130	19,080
Capital outlay	1,720	35,825	13,688	-	9,097	35,504	95,834
Securities lending	2,208	1,087	1	825	744	396	5,261
Total expenditures	1,624,073	874,337	1,529,060	825	13,533	90,340	4,132,168
Excess of revenue over (under) expenditures	148,075	(75,573)	18,597	64,918	82,136	(42,443)	195,710
OTHER FINANCING SOURCES (USES)							
Refunding bonds issued	-	-	-	-	-	16,740	16,740
Bond premium	-	-	-	-	-	946	946
Payment to refunding bond escrow agent	-	-	-	-	-	(17,504)	(17,504)
Inception of lease/installment contract	13	2	34	-	-	-	49
Insurance proceeds	-	115	-	-	-	-	115
General capital asset sale proceeds	49	223	1	-	10,671	2	10,946
Transfers in (Note 12)	72,840	154,536	2,255	2,459	-	74,777	306,867
Transfers out (Note 12)	(71,658)	(29,714)	(25,054)	(41,437)	(81,092)	(20,640)	(269,595)
Total other financing sources (uses)	1,244	125,162	(22,764)	(38,978)	(70,421)	54,321	48,564
Net change in fund balances	149,319	49,589	(4,167)	25,940	11,715	11,878	244,274
Fund balances - July 1 - as previously reported	420,113	936,941	27,555	738,387	428,287	300,923	2,852,206
Prior period adjustments (Note 2)	(247)	(563)	(465)	-	-	3	(1,272)
Fund balances - July 1 - as restated	419,866	936,378	27,090	738,387	428,287	300,926	2,850,934
Increase (decrease) in inventories	471	(1,529)	-	-	-	-	(1,058)
Fund balances - June 30	\$ 569,656	\$ 984,438	\$ 22,923	\$ 764,327	\$ 440,002	\$ 312,804	\$ 3,094,150

The notes to the financial statements are an integral part of this statement.

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**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**
 FOR THE FISCAL YEAR ENDED JUNE 30, 2007
 (amounts expressed in thousands)

Net change in fund balances - total governmental funds \$ 244,274

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. (Note 5)

Capital outlay	538,336	
Depreciation expense	(141,345)	
Excess of capital outlay over depreciation expense		396,991

In the statement of activities, only the gain or loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold. (731)

Donations of capital assets or transfers of capital assets to other funds affects net assets in the statement of activities, but these transactions do not appear in the governmental funds because they are not financial resources. 2,020

Inventories of governmental funds are recorded as expenditures when purchased. However, in the statement of activities, inventories are expensed when consumed. (1,058)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (179)

Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities. 17,900

The incurrence of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of these differences is as follows:

Refunding bonds issued	(16,740)	
Bond premium	(946)	
Payment to refunding bond escrow agent	17,504	
Capital lease financing	(49)	
Principal retirement	33,103	
Issuance costs deferral	237	
Bond issuance costs amortization	(364)	
Bond refunding gain amortization	131	
Bond discount amortization	(13)	
Bond premium amortization	1,314	
Total long-term debt proceeds/repayment		34,177

Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore are not reported as expenditures in the governmental funds. The details of these differences is as follows:

Accrued interest	(1,589)	
Compensated absences	(4,547)	
Early retirement benefits	2	
Arbitrage rebate tax	(290)	
Other liabilities	156	
Total additional expenditures		(6,268)
Change in net assets of governmental activities		<u>\$ 687,126</u>

The notes to the financial statements are an integral part of this statement.

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PROPRIETARY FUND FINANCIAL STATEMENTS

Unemployment Insurance

The Unemployment Insurance Fund accounts for employer contributions deposited with the Secretary of the Treasury of the United States to the credit of the State's unemployment trust fund. Unemployment benefits are paid from this fund to eligible recipients.

Economic Development Bonds

The Economic Development Bonds Fund accounts for the Economic Development Bond Act programs and the Municipal Finance Consolidation Act programs. These programs assist Montana's small businesses, local governments, and state agencies in obtaining long-term, fixed-rate financing through private Montana lending institutions.

Nonmajor Funds

Nonmajor enterprise funds are presented beginning on page 148.

Governmental Activities – Internal Service Funds

Internal service funds are used to account for operations that provide goods or services to other agencies or programs of state government on a cost-reimbursement basis. These funds are presented in more detail beginning on page 170.

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

JUNE 30, 2007

(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL
	ECONOMIC				ACTIVITIES --
	UNEMPLOYMENT	DEVELOPMENT			INTERNAL
	INSURANCE	BONDS	NONMAJOR	TOTAL	SERVICE
					FUNDS
ASSETS					
Current assets:					
Cash/cash equivalents (Note 3)	\$ 259,402	\$ 29,713	\$ 71,626	\$ 360,741	\$ 75,307
Receivables (net) (Note 4)	2,735	9,031	23,857	35,623	4,959
Interfund loans receivable (Note 12)	-	-	-	-	269
Due from other governments	22	-	885	907	7
Due from other funds (Note 12)	-	5,071	371	5,442	5,845
Due from component units	-	1,815	2,354	4,169	426
Inventories	-	-	7,443	7,443	2,509
Short-term investments (Note 3)	-	1,063	-	1,063	-
Securities lending collateral (Note 3)	-	-	474	474	546
Other current assets	-	-	156	156	556
Total current assets	262,159	46,693	107,166	416,018	90,424
Noncurrent assets:					
Advances to other funds (Note 12)	-	18,046	75	18,121	-
Advances to component units	-	5,184	-	5,184	-
Long-term investments (Note 3)	-	3,630	1,658	5,288	4,747
Long-term notes/loans receivable	-	32,280	539	32,819	-
Deferred charges	-	1,526	9	1,535	-
Other long-term assets	-	-	1,802	1,802	-
Capital assets (Note 5):					
Land	-	-	800	800	236
Land improvements	-	-	2,343	2,343	95
Buildings/improvements	-	-	7,316	7,316	3,645
Equipment	-	3	5,283	5,286	198,030
Infrastructure	-	-	884	884	-
Construction in progress	-	-	459	459	5,639
Intangible assets	-	-	275	275	1,347
Less accumulated depreciation	-	(3)	(8,662)	(8,665)	(117,701)
Total capital assets	-	-	8,698	8,698	91,291
Total noncurrent assets	-	60,666	12,781	73,447	96,038
Total assets	262,159	107,359	119,947	489,465	186,462

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

JUNE 30, 2007

(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
LIABILITIES					
Current liabilities:					
Accounts payable (Note 4)	\$ 431	\$ 1,364	\$ 9,173	\$ 10,968	\$ 8,215
Lottery prizes payable	-	-	1,600	1,600	-
Interfund loans payable (Note 12)	-	-	307	307	1,647
Due to other governments	-	-	52	52	-
Due to other funds (Note 12)	110	5	14,283	14,398	3,226
Due to component units	-	-	7	7	77
Deferred revenue	-	-	6,321	6,321	1,031
Short-term debt (Note 11)	-	98,460	-	98,460	-
Bonds/notes payable - net (Note 11)	-	662	430	1,092	-
Amounts held in custody for others	-	58	590	648	-
Securities lending liability (Note 3)	-	-	474	474	546
Estimated insurance claims (Note 8)	-	-	7,901	7,901	14,126
Compensated absences payable (Note 11)	-	15	688	703	2,893
Arbitrage rebate tax payable	-	35	-	35	-
Total current liabilities	541	100,599	41,826	142,966	31,761
Noncurrent liabilities:					
Lottery prizes payable	-	-	1,106	1,106	-
Advances from other funds (Note 12)	-	-	-	-	7,812
Bonds/notes payable - net (Note 11)	-	2,015	-	2,015	-
Estimated insurance claims (Note 8)	-	-	7,577	7,577	13,503
Compensated absences payable (Note 11)	-	29	566	595	2,442
Arbitrage rebate tax payable	-	25	-	25	-
Total noncurrent liabilities	-	2,069	9,249	11,318	23,757
Total liabilities	541	102,668	51,075	154,284	55,518
NET ASSETS					
Invested in capital assets, net of related debt	-	-	8,698	8,698	91,292
Restricted for:					
Unemployment Compensation	261,618	-	-	261,618	-
Other Purposes	-	3,078	50,026	53,104	-
Unrestricted	-	1,613	10,148	11,761	39,652
Total net assets	\$ 261,618	\$ 4,691	\$ 68,872	\$ 335,181	\$ 130,944

The notes to the financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
Operating revenues:					
Charges for services	\$ -	\$ 22	\$ 118,780	\$ 118,802	\$ 112,272
Investment earnings	11,656	932	3,374	15,962	3,269
Securities lending income	-	-	18	18	13
Financing income	-	3,450	-	3,450	-
Contributions/premiums	83,661	-	77,523	161,184	120,453
Grants/contracts/donations	6,899	-	38,930	45,829	-
Taxes	-	-	19,046	19,046	-
Other operating revenues	1,130	-	1,064	2,194	2,396
Total operating revenues	103,346	4,404	258,735	366,485	238,403
Operating expenses:					
Personal services	-	257	11,313	11,570	41,368
Contractual services	-	32	12,255	12,287	23,264
Supplies/materials	-	4	57,030	57,034	23,350
Benefits/claims	73,503	-	99,690	173,193	98,811
Depreciation	-	-	635	635	11,303
Amortization	-	-	759	759	524
Utilities/rent	-	42	854	896	8,814
Communications	-	7	1,593	1,600	9,832
Travel	-	2	267	269	470
Repair/maintenance	-	-	725	725	8,419
Grants	-	-	1,333	1,333	256
Lottery prize payments	-	-	21,417	21,417	-
Interest expense	-	3,837	34	3,871	395
Securities lending expense	-	-	17	17	12
Arbitrage rebate tax	-	(51)	-	(51)	-
Dividend expense	-	-	2,583	2,583	-
Other operating expenses	(1,127)	38	1,538	449	3,005
Total operating expenses	72,376	4,168	212,043	288,587	229,823
Operating income (loss)	30,970	236	46,692	77,898	8,580
Nonoperating revenues (expenses):					
Insurance proceeds	-	-	-	-	376
Gain (loss) on sale of capital assets	-	-	(18)	(18)	(520)
Federal indirect cost recoveries	-	-	-	-	4,424
Increase (decrease) value of livestock	-	-	(57)	(57)	-
Total nonoperating revenues (expenses)	-	-	(75)	(75)	4,280
Income (loss) before contributions and transfers	30,970	236	46,617	77,823	12,860
Capital contributions	-	-	171	171	1,450
Transfers in (Note 12)	-	-	79	79	4,226
Transfers out (Note 12)	(1,066)	(900)	(39,192)	(41,158)	(636)
Change in net assets	29,904	(664)	7,675	36,915	17,900
Total net assets - July 1 - as previously reported	231,715	5,355	59,860	296,930	113,160
Prior period adjustments (Note 2)	(1)	-	1,337	1,336	(116)
Total net assets - July 1 - as restated	231,714	5,355	61,197	298,266	113,044
Total net assets - June 30	\$ 261,618	\$ 4,691	\$ 68,872	\$ 335,181	\$ 130,944

The notes to the financial statements are an integral part of this statement.

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STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from sales and services	\$ 83,442	\$ 22	\$ 193,869	\$ 277,333	\$ 231,825
Payments to suppliers for goods and services	1,127	(137)	(94,521)	(93,531)	(75,947)
Payments to employees	-	(243)	(11,436)	(11,679)	(24,561)
Grant receipts	6,947	-	36,137	43,084	4,279
Grant payments	-	-	(1,333)	(1,333)	-
Cash payments for claims	(73,238)	-	(64,824)	(138,062)	(114,710)
Cash payments for prizes	-	-	(21,346)	(21,346)	-
Other operating revenues	1,130	-	1,053	2,183	2,834
Other operating payments	-	-	(2,587)	(2,587)	-
Net cash provided by (used for) operating activities	19,408	(358)	35,012	54,062	23,720
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Collection of taxes	-	-	19,044	19,044	-
Transfers to other funds	(1,066)	(900)	(48,813)	(50,779)	(744)
Transfers from other funds	-	-	79	79	4,177
Proceeds from interfund loans/advances	-	-	49	49	(6,498)
Payments of interfund loans/advances	-	-	3	3	6,103
Payment of principal and interest on bonds and notes	-	(5,650)	(444)	(6,094)	(387)
Proceeds from issuance of bonds and notes	-	16,532	-	16,532	-
Payment of bond issuance costs	-	(325)	-	(325)	-
Net cash provided by (used for) noncapital financing activities	(1,066)	9,657	(30,082)	(21,491)	2,651
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	-	-	-	-	378
Acquisition of capital assets	-	-	368	368	(18,183)
Proceeds from sale of capital assets	-	-	3	3	294
Principal and interest payments on bonds and notes	-	-	-	-	(16)
Net cash used for capital and related financing activities	-	-	371	371	(17,527)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	-	-	(271)	(271)	-
Proceeds from sales or maturities of investments	-	1,521	1,545	3,066	13,959
Proceeds from securities lending transactions	-	-	18	18	302
Interest and dividends on investments	11,656	804	3,308	15,768	3,331
Payment of securities lending costs	-	-	(17)	(17)	(301)
Collections of principal and interest on loans	-	27,152	-	27,152	-
Cash payment for loans	-	(20,286)	-	(20,286)	-
Arbitrage rebate tax	-	(19)	-	(19)	-
Net cash provided by (used for) investing activities	11,656	9,172	4,583	25,411	17,291
Net increase (decrease) in cash and cash equivalents	29,998	18,471	9,884	58,353	26,135
Cash and cash equivalents, July 1	229,404	11,242	61,742	302,388	49,172
Cash and cash equivalents, June 30	\$ 259,402	\$ 29,713	\$ 71,626	\$ 360,741	\$ 75,307

The notes to the financial statements are an integral part of this statement.

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	\$ 30,970	\$ 236	\$ 46,692	\$ 77,898	\$ 8,580
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:					
Depreciation	-	-	635	635	11,300
Amortization	-	-	768	768	524
Taxes	-	-	(19,046)	(19,046)	-
Interest expense	-	3,837	24	3,861	395
Securities lending expense	-	-	17	17	12
Investment Earnings	(11,656)	(932)	(3,322)	(15,910)	(3,269)
Securities lending income	-	-	(18)	(18)	(13)
Financing income	-	(3,450)	-	(3,450)	-
Federal indirect cost recoveries	-	-	-	-	4,424
Arbitrage rebate tax	-	(51)	-	(51)	-
Change in assets and liabilities:					
Decr (incr) in accounts receivable	(219)	-	(4,665)	(4,884)	(306)
Decr (incr) in due from other funds	50	-	(125)	(75)	338
Decr (incr) in due from component units	(3)	-	(514)	(517)	55
Decr (incr) in due from other governments	-	-	(584)	(584)	(6)
Decr (incr) in inventories	-	-	426	426	(267)
Decr (incr) in other assets	-	-	(580)	(580)	3,123
Incr (decr) in accounts payable	157	(2)	2,703	2,858	(605)
Incr (decr) in lottery prizes payable	-	-	(101)	(101)	-
Incr (decr) in due to other funds	109	1	10,999	11,109	86
Incr (decr) in due to component units	-	-	34	34	23
Incr (decr) in due to other governments	-	-	(409)	(409)	-
Incr (decr) in deferred revenue	-	-	102	102	(27)
Incr (decr) in amounts held in custody for others	-	-	505	505	(3)
Incr (decr) in compensated absences payable	-	3	74	77	462
Incr (decr) in estimated claims	-	-	1,397	1,397	(1,106)
Net cash provided by (used for) operating activities	\$ 19,408	\$ (358)	\$ 35,012	\$ 54,062	\$ 23,720
Schedule of noncash transactions:					
Capital contributions from other funds	- \$	- \$	- \$	- \$	1,177
Incr (decr) in fair value of investments	\$ -	\$ (92)	\$ -	\$ (92)	-
Total noncash transactions	\$ -	\$ (92)	\$ -	\$ (92)	1,177

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FIDUCIARY FUND FINANCIAL STATEMENTS

Pension (and Other Employee Benefit) Trust Funds

These funds provide retirement, disability, death, and lump-sum payments to retirement system members.

Private-Purpose Trust Funds

These funds are used to account for assets held by the State in a trustee capacity, where both the principal and earnings benefit individuals, private organizations, or other governments.

Investment Trust Fund

This fund accounts for the receipt of monies by the Montana Board of Investments for investment in the Short-term Investment Pool (STIP), an external investment pool, and the distribution of related investment earnings to local government agencies.

Agency Funds

Agency funds are used to account for assets held by the State as an agent for individuals, private organizations, and other governments.

Individual funds are presented, by fund type, beginning on page 188.

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
 JUNE 30, 2007
 (amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE- PURPOSE TRUST FUNDS	INVESTMENT TRUST	AGENCY FUNDS
ASSETS				
Cash/cash equivalents (Note 3)	\$ 227,222	\$ 121,707	\$ 924,559	\$ 7,048
Receivables (net):				
Accounts receivable	16,682	-	4,076	315
Interest	15,865	8	-	1
Due from primary government	16,955	-	-	-
Due from other PERB plans	498	-	-	-
Long-term loans/notes receivable	85	-	-	-
Total receivables	50,085	8	4,076	316
Investments at fair value:				
Equity in pooled investments (Note 3)	7,828,284	-	-	-
Other investments (Note 3)	415,112	88,441	-	-
Total investments	8,243,396	88,441	-	-
Securities lending collateral (Note 3)	401,670	-	-	-
Capital Assets:				
Land	35	-	-	-
Buildings/improvements	158	-	-	-
Equipment	152	-	-	-
Accumulated depreciation	(276)	-	-	-
Intangible assets	534	-	-	-
Total capital assets	603	-	-	-
Other assets	75	7,930	-	12,374
Total assets	8,923,051	218,086	928,635	19,738
LIABILITIES				
Accounts payable	714	5	4,076	619
Due to primary government	98	-	-	-
Due to other PERB plans	498	-	-	-
Deferred revenue	72	-	-	-
Amounts held in custody for others	-	-	-	19,119
Securities lending liability (Note 3)	401,670	-	-	-
Compensated absences payable	406	-	-	-
Total liabilities	403,458	5	4,076	19,738
NET ASSETS				
Held in trust for pension benefits and other purposes	\$ 8,519,593	\$ 218,081	\$ 924,559	\$ -

The notes to the financial statements are an integral part of this statement.

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

(amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE- PURPOSE TRUST FUNDS	INVESTMENT TRUST
ADDITIONS			
Contributions/premiums:			
Employer	\$ 152,309	\$ -	\$ -
Employee	162,362	-	-
Participant contributions	-	35,047	-
Other contributions	20,233	-	1,512,776
Net investment earnings:			
Investment earnings	1,306,980	5,183	39,296
Administrative investment expense	(20,241)	-	-
Securities lending income	14,946	-	47
Securities lending expense	(14,159)	-	(47)
Grants/contracts/donations	-	-	-
Charges for services	480	-	-
Other additions	333	5,107	-
Payment from State of Montana	51,375	-	-
Total additions	1,674,618	45,337	1,552,072
DEDUCTIONS			
Benefits	410,059	-	-
Refunds	22,103	-	-
Distributions	-	20,027	1,282,428
Administrative expenses:			
Personal services	2,573	-	-
Contractual services	2,182	545	-
Supplies/materials	78	-	-
Depreciation	5	-	-
Amortization	163	-	-
Utilities/rent	262	-	-
Communications	174	-	-
Travel	69	-	-
Repair/maintenance	43	-	-
Grants	-	13	-
Interest expense	56	-	-
Other operating expenses	408	-	-
Local assistance	13	-	-
Gain (loss) on sale of capital assets	502	-	-
Transfers to ORP	211	-	-
Transfers to PERS-DCRP	1,209	-	-
Total deductions	440,110	20,585	1,282,428
Change in net assets	1,234,508	24,752	269,644
Net assets - July 1 - as previously reported	7,283,826	10,441	654,915
Prior period adjustments (Note 2)	1,259	182,888	-
Net assets - July 1 - as restated	7,285,085	193,329	654,915
Net assets - June 30	\$ 8,519,593	\$ 218,081	\$ 924,559

The notes to the financial statements are an integral part of this statement.

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COMPONENT UNIT FINANCIAL STATEMENTS

Housing Authority

This authority facilitates the availability of decent, safe, and sanitary housing to persons and families of lower income. The board issues negotiable notes and bonds to fulfill its purposes.

Facility Finance Authority

This authority assists all eligible, non-profit Montana health care and other community-based service providers to obtain and maintain access to the broadest range of low-cost capital financing possible.

Montana State Fund (New and Old Fund)

These funds provide workers compensation insurance. These funds consist of two separate entities: the New Fund and the Old Fund. The New Fund covers claims incurred after June 30, 1990, and is financed by member (employer) premiums. The Old Fund covers claims incurred before July 1, 1990.

Montana Surplus Lines

Montana Surplus Lines Agents Association is a legally separate entity appointed as an advisory organization by the Montana Insurance Commissioner, and primarily performs services as directed by the Commissioner, located within the Montana State Auditors' Office. The Association was reactivated in 1989 to operate the Montana State Insurance Commissioner's Surplus Lines stamping office. The Association regulates insurance companies that provide specialized insurance coverage, of an unusual or high risk nature, that is not provided by other insurance companies.

Montana State University and University of Montana

These universities are funded through state appropriations, tuition, federal grants, and private donations and grants. In addition to instruction, these universities provide research and other services.

COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS

JUNE 30, 2007

(amounts expressed in thousands)

	HOUSING AUTHORITY	FACILITY FINANCE AUTHORITY	MONTANA STATE FUND (NEW FUND)	MONTANA STATE FUND (OLD FUND)
ASSETS				
Cash/cash equivalents (Note 3)	\$ 13,818	\$ 2,438	\$ 13,744	\$ 7,862
Receivables (net)	21,419	266	31,041	575
Due from primary government	8	-	13	-
Due from other governments	2	-	-	-
Due from component units	-	-	612	-
Inventories	-	-	-	-
Long-term loans/notes receivable	799,348	452	34	-
Equity in pooled investments (Note 3)	-	-	-	-
Investments (Note 3)	223,755	-	868,027	34,713
Securities lending collateral (Note 3)	-	-	146,413	13,688
Deferred charges	8,719	-	-	-
Capital assets (net) (Note 5)	52	-	6,772	-
Other assets	65	-	25,884	-
Total assets	1,067,186	3,156	1,092,540	56,838
LIABILITIES				
Accounts payable	4,729	14	17,213	108
Due to primary government	19	2	1,415	1
Due to component units	-	-	-	612
Due to other governments	-	-	-	-
Advances from primary government	-	-	-	-
Deferred revenue	-	-	10,216	-
Amounts held in custody for others	-	-	34,274	-
Securities lending liability (Note 3)	-	-	146,413	13,688
Other liabilities	-	-	-	-
Long-term liabilities (Note 11):				
Due within one year	12,392	1	139,297	10,354
Due in more than one year	903,808	26	542,107	64,709
Total liabilities	920,948	43	890,935	89,472
NET ASSETS				
Invested in capital assets, net of related debt	52	-	6,772	-
Restricted for:				
Debt service/construction	-	-	-	-
Funds held as permanent investments:				
Nonexpendable	-	-	-	-
Housing authority	146,186	-	-	-
Other purposes	-	-	-	-
Unrestricted	-	3,113	194,833	(32,634)
Total net assets	\$ 146,238	\$ 3,113	\$ 201,605	\$ (32,634)

The notes to the financial statements are an integral part of this statement.

MONTANA SURPLUS LINES		MONTANA STATE UNIVERSITY		UNIVERSITY OF MONTANA		TOTAL
\$	462	\$	112,405	\$	96,119	\$ 246,848
	164		20,900		23,688	98,053
	-		1,652		2,344	4,017
	-		14,155		7,757	21,914
	-		39		392	1,043
	-		2,775		1,802	4,577
	-		17,333		9,041	826,208
	-		14,422		7,046	21,468
	97		169,011		187,671	1,483,274
	-		639		318	161,058
	-		-		2,505	11,224
	-		296,640		268,154	571,618
	23		5,179		2,859	34,010
	746		655,150		609,696	3,485,312
	296		25,563		15,784	63,707
	-		3,666		924	6,027
	-		392		39	1,043
	-		-		54	54
	-		8,830		5,076	13,906
	2		8,025		13,485	31,728
	-		3,351		10,937	48,562
	-		639		318	161,058
	-		3,670		-	3,670
	-		18,590		15,080	195,714
	-		157,109		164,754	1,832,513
	298		229,835		226,451	2,357,982
	-		179,205		138,990	325,019
	-		24,086		-	24,086
	-		92,887		118,572	211,459
	-		-		-	146,186
	338		55,150		85,665	141,153
	110		73,987		40,018	279,427
\$	448	\$	425,315	\$	383,245	\$ 1,127,330

COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

(amounts expressed in thousands)

	HOUSING AUTHORITY	FACILITY FINANCE AUTHORITY	MONTANA STATE FUND (NEW FUND)	MONTANA STATE FUND (OLD FUND)
EXPENSES	\$ 49,114	\$ 324	\$ 259,663	\$ 13,750
PROGRAM REVENUES:				
Charges for services	380	584	238,282	2
Operating grants and contributions	54,973	143	-	-
Capital grants and contributions	-	-	-	-
Total program revenues	55,353	727	238,282	2
Net (expenses) program revenues	6,239	403	(21,381)	(13,748)
GENERAL REVENUES:				
Unrestricted grants and contributions	-	-	-	-
Unrestricted investment earnings	-	-	65,402	3,015
Payment from State of Montana	-	-	-	-
Gain on sale of capital assets	-	-	-	-
Miscellaneous	-	-	-	-
Contributions to term and permanent endowments	-	-	-	-
Total general revenues and contributions	-	-	65,402	3,015
Change in net assets	6,239	403	44,021	(10,733)
Total net assets - July 1 - as previously reported	139,999	2,710	157,584	(21,901)
Prior period adjustments (Note 2)	-	-	-	-
Total net assets - July 1 - as restated	139,999	2,710	157,584	(21,901)
Total net assets - June 30	\$ 146,238	\$ 3,113	\$ 201,605	\$ (32,634)

The notes to the financial statements are an integral part of this statement.

MONTANA SURPLUS LINES	MONTANA STATE UNIVERSITY	UNIVERSITY OF MONTANA	TOTAL
\$ 543	\$ 410,657	\$ 326,068	\$ 1,060,119
613	170,960	153,898	564,719
-	168,314	107,890	331,320
-	15,257	8,150	23,407
613	354,531	269,938	919,446
70	(56,126)	(56,130)	(140,673)
-	106	-	106
11	12,860	29,334	110,622
-	89,025	64,961	153,986
-	-	182	182
-	-	-	-
-	3,458	7,855	11,313
11	105,449	102,332	276,209
81	49,323	46,202	135,536
367	376,022	337,043	991,824
-	(30)	-	(30)
367	375,992	337,043	991,794
\$ 448	\$ 425,315	\$ 383,245	\$ 1,127,330

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements for the State of Montana have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

A. Reporting Entity

For financial reporting purposes, the State of Montana has included all funds which comprise the State of Montana (the primary government) and its component units. The component units are entities for which the State is financially accountable, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

Discretely Presented Component Units

These component units are entities that are legally separate from the State because they possess corporate powers, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. Complete financial statements of the individual component units, which issue separate financial statements, can be obtained from their respective administrative offices. The component unit columns of the combined financial statements include the financial data of the following entities.

Housing Authority – This authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor. It was created in 1975 to facilitate the availability of decent, safe, and sanitary housing to persons and families of lower income. The board issues negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed \$1.5 billion. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. The authority is audited annually by the State's Legislative Audit Division. The report is issued under

separate cover and available at 301 South Park, Room 204, PO Box 200528, Helena, MT 59620-0545.

Facilities Finance Authority – This authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. The authority assists all eligible, non-profit Montana health care and other community-based service providers to obtain and maintain access to the broadest range of low-cost capital financing as possible. The board issues revenue bonds to fulfill its purposes. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. Individual audit reports are issued every two years by the State's Legislative Audit Division. The report is issued under separate cover and available at 2401 Colonial Drive, 3rd Floor, PO Box 200506, Helena, MT 59620-0506.

Montana State Fund (New and Old Fund) – The fund is a nonprofit, independent public corporation governed by a board appointed by the Governor. The fund provides workers compensation insurance. The fund consists of two separate entities: the New Fund and the Old Fund. The New Fund covers claims incurred after June 30, 1990, and is financed by member (employer) premiums. The Old Fund covers claims incurred before July 1, 1990. Administrative operations and budgets are reviewed by the Governor and the Legislature. The fund is audited annually by the State's Legislative Audit Division. The report is issued under separate cover and available at 5 South Last Chance Gulch, Helena, MT 59601.

Montana Surplus Lines – Montana Surplus Lines Agents Association is a legally separate entity appointed as an advisory organization by the Montana Insurance Commissioner, and primarily performs services as directed by the Commissioner, located within Montana State Auditor's Office. The Association operates the Montana State Insurance Commissioner's Surplus Lines stamping office. The Association regulates insurance companies that provide specialized insurance coverage, of an unusual or high risk nature, that is not provided by other insurance companies. The association was audited by Galusha, Higgins & Galusha, PC. The report is issued under separate cover, and is available at 840 Helena Avenue, Helena, MT 59601.

Universities and Colleges – The State Board of Regents has responsibility for the following institutions: The University of Montana - Missoula and the units under it including Montana Tech of the University of Montana, The University of Montana - Western and The

University of Montana - Helena College of Technology; and Montana State University - Bozeman and the units under it including Montana State University - Billings, Montana State University - Northern, and the Montana State University College of Technology - Great Falls. All units are funded through state appropriations, tuition, federal grants, and private donations and grants. The universities are audited annually by the State's Legislative Audit Division. The reports are issued under separate cover and are available at the President's Office on each of the campuses or by contacting the Commissioner of Higher Education, 46 North Last Chance Gulch, PO Box 203101, Helena, MT 59620.

Though the following organizations perform functions related to the higher education units, they are not considered part of Montana's reporting entity: (1) Community Colleges which are considered part of local units of government; (2) the Montana Higher Education Student Assistance Corporation, a private non-profit corporation; and (3) the Student Assistance Foundation of Montana, a private non-profit corporation. Entities such as local school districts and local authorities of various kinds are considered part of local units of government and have not been included. The State's support of local public education systems is reported in the General Fund and the State Special Revenue Fund.

Fiduciary Fund Component Units

Teachers Retirement System (Pension Trust Fund) – This retirement plan is a legally separate entity with a board appointed by the Governor. Its purpose is to provide retirement, disability, death and lump-sum payments to members of Montana's public teaching profession. The administrative costs of the Teachers Retirement System are paid from investment earnings of the fund. The plan is funded from employer and employee contributions and investment earnings. The board is a discretely presented component unit. The plan is audited annually by the State's Legislative Audit Division. Its report is issued under separate cover and is available at 1500 Sixth Avenue, PO Box 200139, Helena, MT 59620-0139.

Public Employees Retirement Board (Pension and Other Employee Benefit Trust Funds) – The board, appointed by the Governor, administers ten separate retirement plans for the purpose of providing retirement, disability, death, and lump-sum payments to each plan member. These legally separate plans include the Public Employees Defined Benefit Retirement Plan, Public Employees Defined Contribution Retirement Plan, the associated education funds, the Municipal Police Officers, the Game Wardens and Peace Officers, the Sheriffs, the Judges, the Highway Patrol Officers and the Firefighters Unified Retirement Systems, as well as the Volunteer Firefighters Compensation Act.

The board also administers the State of Montana Deferred Compensation Program.

The Public Employees Retirement System (PERS) includes the Public Employees Defined Benefit Retirement Plan and the Public Employees Defined Contribution Retirement Plan, and is funded from employer and employee contributions, investment earnings and contributions from state, county, and local governments. The PERS also accounts for the administrative costs, paid from investment earnings, of the plan. The Municipal Police Officers Retirement System is funded from member, state, and city contributions. The Game Wardens and Peace Officers Retirement System is funded by employer and employee contributions. The Sheriffs Retirement System is funded by member, state, and county contributions. The Judges Retirement System is funded by member and state contributions. The Highway Patrol Officers Retirement System is funded by member and state contributions. The Firefighters Unified Retirement System is funded by employer and employee contributions as well as a portion of insurance premium taxes collected by the State. The Volunteer Firefighters Compensation Act is funded by contributions of a percentage of fire insurance premium taxes collected. The State of Montana Deferred Compensation Program is funded from member and investment earnings; there are two employers, Great Falls Transit and the town of Whitehall, that contribute to the program.

The board is a discretely presented component unit responsible for the ten separate public employee retirement plans including the Deferred Compensation Program. These are reported as pension and other employee benefit trust funds. The board is audited annually by the State's Legislative Audit Division. Its report is issued under separate cover and is available at 100 North Park, Suite 200, PO Box 200131, Helena, MT 59620-0131.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the State of Montana and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the State of Montana is reported separately from certain legally separate component units for which the State is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Certain indirect costs are included in the program expense reported for the individual functions and activities. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not meeting the definition of program revenues are reported as general revenues.

Separate fund financial statements are provided for governmental, proprietary, and fiduciary funds. Fiduciary fund statements are reported only in the fund financial statements. Major individual governmental and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide, Proprietary, and Fiduciary Fund Financial Statements

The government-wide, proprietary fund, and fiduciary fund (except for agency fund) financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Agency funds have no measurement focus. These funds report only assets and liabilities, recognizing receivables and payables using the accrual basis of accounting. Revenues are reported when earned; expenses are recorded when a liability is incurred regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all of the eligibility requirements imposed by the provider are met.

Governmental Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

The major revenue sources considered susceptible to accrual are licenses and permits, natural resource taxes, individual income taxes, corporate income taxes, property taxes, fuel taxes, and certain federal revenues (reimbursable grants and U.S. mineral royalties). All other revenue is considered to be measurable and available when the cash is received.

Fund Financial Statements

The State uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The financial activities of the State of Montana are classified into fund categories as described below:

Governmental Funds

General Fund – To account for all governmental financial resources, except those required to be accounted for in another fund.

Special Revenue Funds – To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes other than major capital projects.

Debt Service Funds – To account for resources accumulated for payment of principal and interest on general long-term obligation debt.

Capital Projects Funds – To account for resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary or trust funds.

Permanent Funds – To account for resources that are permanently restricted to the extent that only earnings, not principal, may be used for the purposes of supporting the government's programs.

Proprietary Funds

Enterprise Funds – To account for operations (1) financed and operated similar to private business enterprises, where the intent of the Legislature is to finance or recover costs primarily through user charges; (2) where the Legislature has decided periodic determination of revenue earned, expenses incurred, or net income is appropriate; (3) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; (4) when laws or regulations require that the activities' costs of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. The primary focus of fee revenues charged by enterprise funds is users outside of the primary government.

Internal Service Funds – To account for the financing of goods and services provided by one department or agency to other departments, agencies, or other governmental entities on a cost-reimbursement basis.

The State of Montana reports two employee group benefits funds. The MUS Group Insurance Fund primarily charges its fees to Montana State University and the University of Montana. The universities are reported as discretely presented component units, which the State considers to be external users, and as such, reports the MUS Group Insurance Fund as an enterprise fund. The Employee Group Benefits Fund charges its fees to funds of the primary government, and as such, is reported as an internal service fund.

Fiduciary Funds

To account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, or other governments. These assets cannot be used to support the government's own programs.

Pension (and Other Employee Benefit) Trust Funds – These funds report resources that are required to be held in trust for the members and beneficiaries of the State's defined benefit plans, defined contribution plans, other retirement plans such as firefighters, police officers, teachers etc., and other post employment benefit plans. Plan members receive retirement, disability, death, and lump-sum payments from the fund. For detail on the individual plans, see Note 6.

Private-Purpose Trust Funds – These funds are used to account for assets held by the State in a trustee capacity, where both the principal and earnings benefit individuals, private organizations, or other governments. Examples include the State's escheated property fund, unliquidated security bonds held on deposit from self-insured employers, environmental reclamation bonds held in trust, and others.

Investment Trust Fund – This fund accounts for the receipt of monies by the Montana Board of Investments for investment in the Short-term Investment Pool (STIP), an external investment pool, and the distribution of related investment earnings to local government agencies.

Agency Funds – Account for assets held by the State as an agent for individuals, private organizations, and other governments. For example, various agencies including State Auditor, Fish, Wildlife and Parks, and the Department of Natural Resources and Conservation hold deposits pending compliance with performance agreements. Other examples include monies belonging to state institution residents and child support payments from parents.

Major Governmental Funds

The General Fund is the State's primary operating fund, as defined above.

The State Special Revenue Fund accounts for all activities funded from state sources, which are restricted either legally or administratively for particular costs of an agency, program, or function.

The Federal Special Revenue Fund accounts for all activities funded from federal sources used in the operation of state government.

The Coal Tax Trust Permanent Fund, created by Article IX, Section 5 of the Montana State Constitution, receives 50% of all coal tax collections. The principal in this fund can be expended only upon affirmative vote of three-fourths of each house of the Legislature.

The Land Grant Permanent Fund accounts for lands granted to the State for support of public schools and state institutions.

Major Enterprise Funds

The Unemployment Insurance Fund accounts for employer contributions deposited with the Secretary of the Treasury of the United States to the credit of the State's unemployment trust fund. Unemployment benefits are paid from this fund to eligible recipients.

The Economic Development Bonds Fund accounts for the Economic Development Bond Act programs and the Municipal Finance Consolidation Act programs. These programs assist Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed by both the government-wide and proprietary fund financial statements to the extent they do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds. The State has elected not to follow subsequent private sector guidance.

As a general rule, material interfund revenues have been eliminated from the government-wide financial statements. These have not been eliminated where their elimination would distort the direct costs and program revenues of the functions involved.

The State does not allocate indirect expenses to functions in the Statement of Activities.

D. Proprietary Activity Accounting and Financial Reporting

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating.

E. Cash/Cash Equivalents

For all funds, cash and cash equivalents consist of amounts deposited in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short-term Investment Pool (STIP), cash held by trustees, undeposited cash held by individual state agencies, and investments categorized as cash equivalents, which are short-term, highly liquid investments with original maturities of three months or less. (See Note 3).

F. Receivables

This classification, net of estimated uncollectibles, consists primarily of receivables for goods sold and services provided; short-term loans and notes; interest and dividends; taxes due within 60 days of fiscal year-end; and income, withholding, and inheritance taxes that are past due. An allowance for uncollectible taxes is provided based upon historical analysis. Further detail relating to receivables is provided in Note 4.

G. Inventories

Inventories of materials and supplies are stated at cost. The State allows agencies to use any generally accepted inventory pricing method, but specifies the first-in, first-out method should be appropriate for most agencies.

Governmental funds use the "purchase method," meaning inventory purchases are recorded as expenditures. At fiscal year-end, significant amounts of inventory are shown as a reservation of fund balance, indicating they do not constitute available expendable resources.

Proprietary and fiduciary funds report using the "consumption method," meaning inventories are expensed as used.

H. Restricted Assets

Certain investments of the Economic Development Bonds Enterprise Fund are classified as restricted assets on the Statement of Net Assets for Proprietary Funds because their use is limited by applicable bond indenture agreements.

I. Equity in Pooled Investments

The Montana Board of Investments manages the State's Unified Investment Program, which includes several internal investment pools. Participation in the pools is restricted to permanent funds, private-purpose trust funds, investment trust funds, pension trust funds, Montana University System Units, and specific funds established within the State Special Revenue Fund. The participant investments in the pools are reported at fair value in the assets within the individual funds (See Note 3 on Cash/Cash Equivalents and Investments).

J. Investments

In accordance with the Montana Constitution and the statutorily mandated "Prudent Expert Rule," the State of Montana invests in various types of securities for each portfolio it manages. Certain securities including asset-backed securities, variable-rate instruments, zero-coupon bonds, preferred stocks, and mortgage-backed securities are purchased for portfolio diversification and a competitive rate of return. Most investments are reported at fair value in the Balance Sheet or Statement of Net Assets. Investments are reported by type in the disclosure of custodial credit risk for each investment portfolio (See Note 3 on Cash/Cash Equivalents and Investments).

K. Capital Assets

Capital asset valuation is based on actual historical cost or, in the case of donations, fair market value on the date donated. General government infrastructure capital assets are capitalized and reported in the government-wide financial statements. Infrastructure assets of proprietary funds are capitalized on the fund financial statements. Interest incurred during the construction of capital assets for proprietary funds and higher education units is capitalized. The State has chosen to use the depreciation approach for infrastructure assets and is reporting accumulated depreciation in the Statement of Net Assets and depreciation expense in the Statement of Activities for these assets.

Capital assets in proprietary, private-purpose trust, and pension trust funds are accounted for within their respective funds and are depreciated. Depreciation is on

a straight-line basis with estimated useful lives of 25 to 60 years for buildings, 7 to 20 years for building improvements, 3 to 10 years for equipment, and 10 to 50 years for infrastructure. State agencies are also required to extend or shorten the useful lives of capital assets to reflect their actual experience or industry standards when appropriate.

The capitalization limit for buildings and building/land improvements is \$25,000. The capitalization threshold for infrastructure is \$500,000. Agencies are allowed to capitalize additions to collections and land acquisitions at any cost. The capitalization limit for other capital assets is set at \$5,000. Purchases under these thresholds are recorded as expenditures/expenses in the current period.

L. Deferred Revenue

Deferred revenue in the government-wide, proprietary fund, and fiduciary fund financial statements relates to unearned revenue. A liability for unearned revenue is recorded when assets are recognized in connection with a transaction prior to the earnings process being completed.

Deferred revenue in the governmental fund financial statements relates to both unearned revenue (as discussed above) and unavailable revenue. A liability for unavailable revenue is recorded when assets are recognized in connection with a transaction, but those assets are not considered available to finance expenditures of the current fiscal period.

M. Long-term Obligations

Long-term obligations expected to be financed from governmental funds are reported in the government-wide financial statements. Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from current expendable available financial resources is reported as a fund liability of a governmental fund in the fund financial statements. The remaining portion of such obligations is reported in the government-wide financial statements.

Long-term liabilities expected to be financed from proprietary and fiduciary fund operations are accounted for in those funds.

N. Capital Leases

A capital lease is generally defined by GASB Statement 13, Accounting for Leases, as one which transfers benefits and risks of ownership to the lessee. At the inception of a capital lease, in the government-wide, proprietary fund, and fiduciary fund financial statements, a capital asset and a capital lease liability are recorded at the present value of the future minimum lease payments. In the governmental fund financial statements, because the modified accrual basis of accounting is used, no asset or liability is recorded related to assets under capital leases. Rather, in the governmental fund financial statements, at the inception of a capital lease, a capital outlay expenditure and an other financing source (inception of lease/installment contract) are recorded at the net present value of the minimum lease payments.

O. Bond Discounts/Premiums/Issuance Costs

Bond premiums and discounts, as well as issuance costs, are recognized in the current period for governmental funds in the fund financial statements. Bond proceeds and bond premiums are reported as an other financing source, and bond discounts are reported as an other financing use. Issuance costs are reported as debt service expenditures whether or not they are withheld from the bond proceeds. In proprietary fund types and in governmental funds as presented in the government-wide financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds, which approximates the effective interest method. Bonds payable are recorded net of any applicable premium or discount, while issuance costs are reported as deferred charges.

P. Compensated Absences

Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 40 hours of sick leave to a nonrefundable sick leave pool. Based on a review, the adjusted ending balance of the pool for June 30, 2006, was 2,580 hours. For fiscal year 2007, 945 hours were contributed to the sick leave pool and 964 hours were withdrawn, leaving a balance of 2,561 hours in the pool. No liability is reported in the accompanying financial statements because these hours are

nonrefundable to contributors, except by grants approved through an application process.

Vested or accumulated leave for proprietary and fiduciary funds is recorded as an expense and liability of those funds in the fund financial statements. For governmental funds, the liability is not expected to be liquidated with expendable financial resources. The expenditure and liability for the governmental funds is reported only in the government-wide financial statements. Upon retirement or termination, an employee is paid for 100% of unused vacation leave and 25% of unused sick leave.

Q. Advances to Other Funds

Noncurrent portions of long-term interfund receivables are reported as advances and are offset equally by a fund balance reserve account in the fund financial statements, which indicates that they do not constitute expendable available financial resources. The transaction is recognized by the receiving fund as advances from other funds.

R. Fund Balance/Net Assets

The State reserves those portions of fund balance not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for the future use of financial resources. The debt service funds designated fund balances represent management's desire to maintain fund balance for future debt service payments.

T. Other Taxes

On the Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds, the revenue category "Other Taxes" in the General, State Special Revenue, and Nonmajor Governmental funds consists of the following taxes (in thousands):

	General Fund	State Special Revenue Fund	Nonmajor Governmental Funds	Total
Accommodations	\$ 13,429	\$18,404	\$ -	\$ 31,833
Agriculture sales	-	3,654	-	3,654
Cigarette/tobacco	40,488	50,616	2,065	93,169
Fire protection	-	2,586	-	2,586
Insurance premium	61,399	-	-	61,399
Livestock	-	3,538	-	3,538
Other taxes	23,949	6,275	-	30,224
Public Service Commission	-	2,641	-	2,641
Telephone license	21,582	-	-	21,582
Video gaming (1)	60,183	(4)	-	60,179
Total other taxes	\$221,030	\$87,710	\$2,065	\$310,805

(1) Negative video gaming revenues in the State Special Revenue Fund due to a prior year adjustment.

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide Statement of Net Assets reported restricted net assets (in thousands) of \$2,662,116, of which \$580,692 is restricted by enabling legislation.

S. Property Taxes

Real property taxes are levied in October and are payable in two installments on November 30 and May 31. These taxes attach as an enforceable lien immediately if not paid when due.

Personal property tax levies are set each August, and notices are normally mailed the following March or April. Half of mobile home taxes are due in 30 days and the remaining half on September 30. Taxes on all other types of personal property are to be paid in full 30 days after receipt of the notice. Personal property taxes attach as an enforceable lien immediately if not paid when due. Property taxes are collected by each of Montana's 56 counties. The counties then remit the State's portion to the State Treasury. The majority of these taxes help fund public school systems and higher education.

NOTE 2. OTHER ACCOUNTING ISSUES**A. New Accounting Guidance Implemented**

For the year ended June 30, 2007, the State of Montana implemented the provision of the Governmental Accounting Standards Board (GASB) Statement No. 50 – Pension Disclosures. The disclosures are amendments to GASB Statement No. 27, and present the disclosures of the actuarial methods, assumptions, and funded status of the plan in the financial notes.

B. Prior Period Adjustments

Prior period adjustments reported in the accompanying financial statements relate to corrections of errors from prior periods. The most significant of these adjustments affected the governmental activities column in the Statement of Activities, and related to various capital asset corrections. Additionally, a correction was made in a private-purpose trust fund, the College Savings Plan. In the financial statements for the year ended June 30, 2006, an error was made in accounting for the College Savings Plan in the private-purpose trust funds. This error has been corrected, and had the following effect on the beginning fund balance:

College Saving Plan	
Beginning fund balance, as previously reported	\$ -
Adjustment of 2006 activity not reported in 2006	\$182,888
Beginning fund balance, as corrected	<u>\$182,888</u>

NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS

This note details the following asset classifications (in thousands):

Cash/cash equivalents	\$3,187,075
Equity in pooled investments	\$9,212,480
Investments	\$2,291,022

Carrying amounts for the bank balance for Cash Deposits and fair values for the State's cash equivalents and investments are presented in Tables 1 through 4.

A. General

(1) Cash and cash equivalents consist of funds deposited by individual funds in the State Treasurer's pooled cash account, cash deposits in checking

accounts, cash invested in the Short-term Investment Pool, cash held by trustees, undeposited cash held by individual state agencies, and investments categorized as cash equivalents.

Cash deposited with the State Treasurer's pooled cash account is invested by the Montana Board of Investments (BOI) in short-term securities and other investments. Because these funds are immediately available to the individual funds, their investment in the pooled cash account is reported as a cash equivalent. In addition to the State Treasurer's pooled cash account, there is the Short-term Investment Pool (STIP) maintained by the BOI. This investment fund provides individual state agencies and local governments an opportunity to invest excess cash in a money market fund. Because these pooled funds are invested in short-term, highly liquid investments, the individual fund investments in the STIP are reported as a cash equivalent.

Although STIP, an external investment pool, is not registered with the Securities and Exchange Commission (SEC) as an investment company, the BOI has as policy that STIP will, and does, operate in a manner consistent with the SEC Rule 2a7. By meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values. The portfolio is carried at amortized cost or book value. State agencies that are allowed to retain their interest earnings within their funds are required to invest in STIP. Local government participation in STIP is voluntary. Separately issued external investment pool financial statements may be obtained by contacting the Montana Board of Investments, 2401 Colonial Drive, 3rd Floor, PO Box 200126, Helena, MT 59620-0126.

The State's cash equivalents and investments are detailed in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments to disclose the level of investment risk, when applicable, assumed by the State at June 30, 2007.

(2) All securities are reported by investment portfolio and type in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments. The State invests in certain types of securities, including U.S. government direct-backed, U.S. government indirect-backed, corporate stock/bonds, foreign government bonds, municipals, equity index, preferred stock, convertible equity securities, American Depositary Receipts (ADRs), equity derivatives, venture capital, leveraged buyout, mezzanine, diversified real estate portfolio, distressed debt, special situation and secondary investments, and cash equivalents, to provide a diversified investment portfolio and an overall competitive rate of return.

U.S. government direct-backed securities include direct obligations of the U.S. Treasury and obligations explicitly guaranteed by the U.S. government. U.S. government indirect-backed obligations include U.S. government agency and mortgage-backed securities. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages.

Common stock represents ownership units (shares) of a public corporation. Common stock owners are entitled to vote on director selection and other important matters, as well as receive dividends on their holdings. Equity index investments are investments in selected mutual funds whose equity portfolios match a broad based index or composite. Preferred stock, as a class of stock, pays dividends at a specified rate and has preference in the payment of dividends and liquidation of assets. Preferred stock holders, ordinarily, do not have voting rights. Convertible securities are securities carrying the right to exchange, or “convert” the instrument for other securities of the issuer or of another issuer. This definition most often applies to preferred stocks or corporate bonds carrying the right to exchange for a fixed number of shares of the issuer’s common stock. ADRs are receipts issued by a U.S. depositary bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of the American depositary bank. Equity derivatives “derive” their value from other equity instruments such as futures and options.

Venture capital represents private equity investments in early stage financing of rapidly growing companies with an innovative product or service. Leveraged buyouts (LBOs) permit an investment group to acquire a company by leveraging debt, as a financing technique, to establish a significant ownership position on behalf of the company’s current management team. Mezzanine investments are the subordinated debt and/or equity of privately-owned companies. The debt holder participates in equity appreciation through conversion features, such as rights, warrants, and/or options.

Diversified real estate portfolio consists of investments in external real estate managers with both open-end and close-end pooled funds. Open-ended commingled funds provide timely access to existing large funds with diversified property types, diversified geographic exposure to larger properties, and a reasonable liquidity. The close-ended commingled fund investments may be made to obtain exposure to value and opportunistic investments. Reasonable due diligence is exercised prior to selecting investments.

Distressed debt represents the private and public debt of companies that appear unlikely to meet their financial obligations.

Special situation investments include the investment in the exploration for oil and/or gas reserves or in the development of proven reserves, investment in land to harvest timber, and investments that have a special component usually related to geographical, economic, or social issues. Secondary investments are investments in previously owned limited partnerships. These investments may be direct or via a general partner specializing in secondary investments. Private equity investments are long-term, by design, and extremely hard to value.

Investments are presented in the Statement of Net Assets at fair value. Fair values for investment pool securities are determined primarily by reference to market prices supplied to the BOI by BOI’s custodial bank, State Street Bank. Amortized cost represents the original cost, adjusted for premium and discount amortization, where applicable. Premiums and discounts are amortized/accreted using the straight-line or scientific method to the call, average life or maturity date of the securities. Amortized cost may also be referred to as book value.

Under the provisions of state statutes, the State has, via a Securities Lending Authorization Agreement, authorized the State’s agent to lend the State’s securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the State receives a fee and the agent must initially receive collateral equal to 102% to 105% of the fair value of the loaned securities and maintain collateral equal to not less than 100% of the fair value of the loaned security. During the fiscal year, the State’s agent loaned, on behalf of the State, certain securities held by the agent and received U.S. dollar currency cash, U.S. government securities, and irrevocable bank letters of credit as collateral. The State’s agent does not have the ability to pledge or sell collateral securities unless the borrower defaults. The State retains all rights and risks of ownership during the loan period. At year-end, the BOI has no credit risk exposure to borrowers because the amount the BOI owes the borrowers exceed the amount the borrowers owe the system.

B. Cash/Cash Equivalents

(1) Cash Deposits – The State requires collateralization based on the average daily bank balance in the depository bank holding the main State bank account. For other depository banks, state statutes require collateralization at 50% of the bank balance. The cash deposits amount includes both primary government and component unit deposits.

Table 1 - Cash Deposit Amounts
(in thousands)

	Carrying Amount
Cash held by State/State's agent	\$ 13,734
Uninsured and uncollateralized cash	16,167
Undeposited cash	955
Cash in U.S. Treasury	262,960
Cash in MSU component units	5,578
Cash in UM component units	10,223
Less: outstanding warrants	(67,577)
Total cash deposits	<u>\$242,040</u>

As of June 30, 2007, the carrying amount of deposits for component units was \$95,080,122, as included in Table 1.

(2) Cash Equivalents – consists of cash in the State Treasury invested by individual funds in the Short-term Investment Pool (STIP), the State Treasurer's pooled cash account, and in identifiable securities and investments considered to be cash equivalents. Cash equivalents, generally, are short-term, highly liquid investments with original maturities of three months or less. Cash equivalents may be under the control of the Board of Investments or other agencies, as allowed by law.

Table 2 - Cash Equivalents
(in thousands)

	Fair Value	Credit Quality Rating	Fund
Commercial paper	\$1,854,757	A1	Various
Corporate fixed	475,001	A1+	Various
Corporate variable-rate	379,983	A1+	Various
Municipal variable-rate	5,000	NR	
Money market	25,000	A1+	
U.S. government indirect-backed	49,999	A1+	Various
Repurchase agreement (1)	18,255	NR	
Government direct-indirect (2)	148,539	AAA	Various
Money market	214,635	NR	
Less: STIP included in pooled investment balance	(226,134)		
Total cash equivalents	<u>\$2,945,035</u>		
Securities lending collateral investment pool	<u>\$ -</u>		

(1) As of June 30, 2007, a repurchase agreement, per contract, was collateralized at 102% for \$18,628,275 by a Federal Home Loan Mortgage Corporation REMIC maturing April 15, 2034. This security carries a AAA credit quality rating.

(2) The government direct-indirect securities are included in the credit quality rating and effective duration table in Note 3 D (investments).

As of June 30, 2007, local governments invested \$924,558,963 in STIP.

As of June 30, 2007, component units of the State of Montana had investments in cash equivalents with a book value and fair value of \$453,546,674.

Investment Risk Disclosures

The investment risk disclosures are described in the following paragraphs and are identified by the specific pools or securities to which they pertain, when applicable.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The STIP securities have credit risk as measured by major credit rating services. This risk is that the issuer of a STIP security may default in making timely principal and interest payments. The Board of Investment's policy requires that STIP securities have the highest investment grade rating in the short-term category by at least one of the Nationally Recognized Statistical Rating Organizations (NRSRO).

Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk, and do not require disclosure of credit quality per GASB Statement 40.

STIP investments are categorized above to disclose credit risk as of June 30, 2007. Credit risk reflects the security quality rating, by investment security type, as of the June 30 report date. If a security investment type is unrated, the quality type is indicated by NR (not rated). Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated by the NRSRO.

In April 2007, the BOI purchased two issues of Axon Financial Funding totaling \$90 million par. As of June 30, 2007, these corporate variable-rate securities held in the STIP portfolio (Note 13) carried a combined amortized cost of \$89,993,901, representing 3.22% of the total portfolio. At the time of purchase, and as of June 30, 2007, these issues received the highest investment grade rating of AAA by Standard and Poors and Aaa by Moody's. As of September 14, 2007, these issues were still rated AAA by Standard and Poors. Standard and Poors downgraded these two issues to BBB on October 30, 2007, and CCC on November 9, 2007. The Axon investment was downgraded to D on November 27 due to the triggering of an "automatic liquidation event." The investment is currently being restructured by a committee of senior creditors owning more than 80% of the total \$8.3 billion issue. All the underlying assets backing the investment are still in place. The BOI, as one of the senior creditors, is monitoring the progress of the restructuring.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2007, all STIP securities were registered in the nominee name for the Montana Board of Investments and held in

the possession of the board's custodial bank, State Street Bank, or the State's name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The STIP Investment Policy Statement does not specifically address concentration of credit risk. The policy does provide for "a minimum of three (3%) percent or \$15 million, whichever is higher, to be invested in repurchase agreements." Other investments had concentrations of credit risk exposure to the Federal National Mortgage Association of 7.34% as of June 30, 2007.

The concentration of credit risk for the rated securities is included in the disclosure in Note 3 D (investments).

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. According to GASB Statement 40, interest rate disclosures are not required for STIP, since STIP is a "2a-7-like pool".

Corporate asset-backed securities are based on cash flows from principal and interest payments on underlying auto loan receivables, credit card receivables, and other assets. These securities, while sensitive to prepayments due to interest rate changes, have less credit risk than securities not backed by pledged assets.

While variable-rate (floating-rate) securities have credit risk identical to similar fixed-rate securities, their interest rate risk is more sensitive to interest rate changes. However, their fair value may be less volatile than fixed-rate securities because their value will usually remain at or near par as a result of their interest rates being periodically reset to maintain a current market yield.

Legal Risk

As of June 30, 2007, Montana was not aware of any legal risks regarding any investments.

C. Equity in Pooled Investments

These securities consist of investments held by pooled investment funds. The Montana Domestic Equity Pool (MDEP), Trust Funds Bond Pool (TFBP), Retirement Funds Bond Pool (RFBP), Montana International Equity Pool (MTIP), Montana Private Equity Pool (MPEP), and Montana Real Estate Pool (MTRP) were created to allow qualifying funds to participate in diversified investment pools. Purchases are subject to the statutorily mandated "Prudent Expert Principle" (see Table 3 – *Equity in Pooled Investments on the next page*).

Table 3 – Equity in Pooled Investments
(in thousands)

	Carrying Amount	Fair Value
MDEP:		
Common Stock Pool	\$1,079,260	\$1,318,109
Transition Account	731	690
Artisan Mid Cap	65,571	67,861
Martingale Mid Cap	118,374	120,573
North Pointe Small Cap	50,316	54,108
Times Square Mid Cap	78,634	81,566
Vaughn Nelson Small Cap	45,814	48,774
Equity Index Funds	1,231,293	1,660,341
DFA Small Cap Subtrust	41,567	77,260
MidCap Equity Index Fund	17,956	23,221
SPIFF	14,386	15,077
TFBP:		
Corporate bonds (rated)	670,142	672,496
Corporate bonds (unrated)	1,275	1,320
Municipal government bonds (rated)	1,130	1,181
Municipal government bonds (unrated)	2,287	2,287
U.S. government direct-backed	46,092	47,635
U.S. government indirect-backed	594,086	587,139
STIP	62,784	62,784
RFBP:		
Corporate bonds (rated)	965,267	969,566
Corporate bonds (unrated)	8,043	8,030
U.S. government direct-backed	73,545	75,036
U.S. government indirect-backed	808,894	798,830
STIP	113,252	113,253
MTIP:		
BGI MSCI Europe Index	93,208	174,066
DFA International Small Company	46,890	68,532
ISPIFF/SPIFF	41,754	50,883
Nomura Asset Management USA	68,785	97,539
Axa Rosenberg Investment Management	46,909	57,912
BGI Alpha Tilts	101,211	126,482
Batterymarch Financial Management	182,716	210,513
Julius Baer Investment Management	157,610	192,569
Acadian Asset Management	140,423	161,658
Alliance/Bernstein	117,647	144,312
Martin Currie	109,628	125,725
Hansberger Global Investors	107,149	127,752
Principal Global Investors	64,815	74,128
MPEP:		
Private equities	467,026	574,515
State Street SPIFF	48,035	47,382
MTRP:		
ABR Chesapeake Fund III	8,000	8,000
Apollo Real Estate Finance Group	1,210	1,103
Clarion Lion Properties Fund	30,000	30,918
JP Morgan Chase Bank Strategic Properties	50,421	52,322
Hudson Realty Capital Fund IV	6,750	6,715
Strategic Partners Value Enhancement	4,846	4,635
TA Associates Realty Fund VIII	5,000	5,000
STIP	50,097	50,097
Total pooled investments	8,040,829	9,199,895
Pool adjustments (net)	12,585	12,585
Total equity in pooled investments	\$8,053,414	\$9,212,480

At June 30, 2007, the carrying and fair value of the underlying securities on loan was \$1,391,763,275 and \$1,413,941,218, respectively. The collateral provided for the securities on loan totaled \$1,444,513,811.

As of June 30, 2007, component units of the State of Montana had equity in pooled investments with a book value of \$4,814,514,897 and a fair value of \$7,849,752,111, as included in Table 3.

Investment Risk Disclosures

The investment risk disclosures are described in the following paragraphs, and are identified by the specific pools to which they pertain, when applicable.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of the U.S. government securities, the pool fixed-income instruments have credit risk as measured by major credit rating services. This risk is that the issuer of a fixed-income security may default in making timely principal and interest payments. The Board of Investment's policy requires pool fixed-income investments, at the time of purchase, to be rated an investment grade as defined by Moody's or by Standard & Poor's (S&P) rating services. The U.S. government securities are guaranteed directly or indirectly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The credit ratings presented in the following tables are provided by S&P's rating services. If an S&P rating is not available, a Moody's rating has been used.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of fiscal year end, all the fixed-income securities were registered in the nominee name for the Montana Board of Investments. The State Street repurchase agreement was purchased in the State of Montana Board of Investments name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments issued or explicitly guaranteed by the U.S. government are excluded from the concentration of credit risk requirement.

According to the TFBP and RFBP investment policies, with the exception of U.S. government indirect-backed (agency) securities, additional TFBP or RFBP portfolio purchases will not be made in a credit if the credit risk exceeds 2 percent of the portfolio at the time of purchase". As of June 30, 2007, the TFBP had concentration of credit risk exposure to the Federal Home Loan Mortgage Corp of 10.10%. As of June 30, 2007, the RFBP had concentration of credit risk exposure to the Federal Home Loan Mortgage Corp of 5.39%.

As of June 30, 2006, MTRP's single investment was in STIP. As of June 30, 2007, the STIP represented

31.55% of the MTRP portfolio. As of June 30, 2007, MDEP had no single issue investments that exceeded 5% of its portfolio.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The TFBP and RFBP investment pool policies do not formally address interest rate risk. In accordance with GASB Statement 40, the board has selected the effective duration method to disclose interest rate risk. This information, as provided by the custodial bank, is "An option-adjusted measure of a bond's (or portfolio's) sensitivity to changes in interest rates. Duration is calculated as the average percentage change in a bond's value (price plus accrued interest) under shifts of the Treasury curve plus/minus 100 basis points. The effective duration method incorporates the effect of the embedded options for bonds and changes in prepayments for mortgage-backed securities (including pass-throughs, CMOs, and ARMs)."

Corporate asset-backed securities are based on cash flows from principal and interest payments on underlying auto loan receivables, credit card receivables, and other assets. These securities, while sensitive to prepayments due to interest rate changes, have less credit risk than securities not backed by pledged assets.

According to GASB Statement 40, "interest rate disclosures are not required for pooled investments if the pool is a 2a-7 like pool". Because STIP operates as a 2a-7 like pool, this exclusion applies to MTRP.

As reported in the U.S. government indirect-backed category, the TFBP portfolio holds REMICs totaling \$57,019 at amortized cost as of June 30, 2007. The RFBP portfolio holds REMICs totaling \$303,613 in amortized cost as of June 30, 2007. These securities are based on separate or combined cash flows from principal and interest payments on underlying mortgages.

In regard to RFPB, the Interest Only (IO) securities are more sensitive to prepayments by mortgagees resulting from interest rate changes than other REMIC securities. The IO REMIC securities purchased in August and September 1992 carry an amortized cost of \$3 as of June 30, 2007.

The TFBP holds one inverse variable-rate corporate \$15 million par bond. The RFBP holds one inverse variable-rate corporate \$25 million par bond. The quarterly coupon is calculated at a set rate less the 12-month LIBOR in arrears. As interest rates increase, the coupon paid will decline.

State of Montana investments are categorized below to disclose credit and interest rate risk as of June 30, 2007, as required for applicable pools. Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date. Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). Both the credit quality ratings and duration have been calculated excluding cash equivalents. If duration has not been calculated, duration is indicated by NA (not applicable).

TFBP
Credit Quality Rating and Effective Duration as of June 30, 2007
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Corporate bonds (rated)	\$ 672,496	A	4.75
Corporate bonds (unrated)	1,320	NR	.94
Municipal government bonds (rated)	1,181	AAA	1.85
Municipal government bonds (unrated)	2,287	NR	4.74
U.S. government direct-backed	47,634	AAA	8.78
U.S. government indirect-backed	587,139	AAA	5.56
STIP	62,784	NR	NA
Total fixed-income investments	<u>\$1,374,841</u>	<u>AA</u>	<u>5.25</u>
Securities lending collateral investment pool	<u>\$ 61,184</u>	NR	NA

RFBP
Credit Quality Rating and Effective Duration as of June 30, 2007
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Corporate bonds (rated)	\$ 969,566	A	5.01
Corporate bonds (unrated)	8,030	NR	5.61
U.S. government direct-backed	75,036	AAA	6.09
U.S. government indirect-backed	798,830	AAA	5.50
STIP	113,253	NR	NA
Total fixed-income investments	<u>\$1,964,715</u>	<u>AA</u>	<u>5.27</u>
Securities lending collateral investment pool	<u>\$ 86,995</u>	NR	NA

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. Several MPEP investments represent limited partnership investments in various foreign countries. Per GASB Statement 40, no foreign currency risk disclosure is required for these limited partnership investments. Currency speculation, such as over-hedging, reverse hedging or other trading activity not specifically aimed at preserving the U.S. dollar value of investments, is not authorized.

The U.S. dollar balances of the MTIP cash and investments are disclosed by currency in the following table.

MTIP
Cash by Currency
(in thousands)

Cash	2007	
	Carrying Amount	Fair Value
Australian Dollar	\$ 784	\$ 793
Canadian Dollar	17	18
Danish Krone	52	52
Hong Kong Dollar	320	320
Hungarian Forint	24	24
Euro	1,261	1,268
Israeli Shekel	9	9
Japanese Yen	3,026	2,984
South Korean Won	43	43
Malaysian Ringgit	27	27
Mexican Peso	2	2
Norwegian Krone	439	448
Singapore Dollar	86	86
Swedish Krona	72	72
Swiss Franc	545	540
New Taiwan Dollar	62	63
Thailand Baht	12	12
Turkish Lira	4	4
UK British Pound	384	388
Total cash	\$7,169	\$7,153

The MTIP, through the funds below, has significant investments in multiple foreign countries. Future economic and political developments in these countries could adversely affect the liquidity or value, or both, of the securities held by the funds in which MTIP is invested. MTIP reorganized its investments to minimize exposure. The pool restructuring resulted in terminating Schroeders' involvement and downsizing the other active Pacific region manager, Nomura. The BGI Passive Pacific Index Strategy fund was eliminated. Nine new external managers were added.

MTIP
Investment by Security Type
(in thousands)

Security Investment Type	2007	
	Carrying Amount	Fair Value
Axa Rosenberg Investment Management	\$ 46,908	\$ 57,912
BGI MSCI Europe Index	93,208	174,066
BGI Alpha Tilts	101,211	126,482
DFA International Small Company	46,890	68,532
State Street ISPIFF	41,754	50,883
Nomura Asset Management	68,785	97,539
Batterymarch Financial Management	182,716	210,513
Julius Baer Investment Management	157,609	192,569
Acadian Asset Management	140,423	161,658
Alliance/Bernstein	117,647	144,312
Martin Currie	109,628	125,725
Hansberger Global Investors	107,149	127,752
Principal Global Investors	64,815	74,128
Total investments	<u>\$1,278,743</u>	<u>\$1,612,071</u>
Securities lending collateral investment pool	<u>\$ 145,724</u>	<u>\$ 145,724</u>

D. Investments

Article VIII of Montana's Constitution, with supporting statutes, authorizes the Board of Investments (BOI) to manage the State's unified investment program. Long-term investments are administered by the following agencies, as allowed by state law, Title 17, Chapter 6, Part 201, MCA:

Long-term Investments

Department	Percent Administered
Board of Investments	65.41%
PERA (Public Employee Retirement Administration)	15.00
Board of Housing	11.53
College Savings Plan	4.57
Montana State University/University of Montana	2.21
Other (1)	1.28
Total	<u>100.00%</u>

(1) Other consists of the Commissioner of Higher Education, the Department of Administration, the Department of Natural Resources and Conservation, the Department of Public Health and Human Services, and the Montana State Auditor's Office.

The BOI must employ the "Prudent Expert Rule" in managing the State's investment portfolio. Investments are presented at fair value. Investment fair values for publicly traded securities are determined primarily by reference to market prices supplied to the BOI's custodial bank or trustee. Amortized cost, or carrying value, represents the original cost, adjusted for premium and discount amortization where applicable.

Table 4 – Investments
(in thousands)

	Carrying Amount	Fair Value
Primary government		
Corporate (rated) (1)	\$ 23,546	\$ 23,216
U.S. govt direct/indirect (rated) (1)	41,784	42,207
U.S. govt mortgage-backed (rated) (1)	1,864	1,858
Govt securities	27,939	27,389
MUS Workers Compensation	674	653
Other equities	226,767	204,074
Total	\$ 322,575	\$ 299,397
Component units/fiduciary funds		
Corporate (rated) (1)	\$ 421,650	\$ 417,477
U.S. govt direct/indirect (rated) (1)	373,183	367,490
U.S. govt mortgage-backed (rated) (1)	17,244	17,094
Govt securities	265,934	269,240
Other equities	68,499	100,642
Deferred compensation	258,261	288,538
Defined contribution	32,096	40,420
College Savings Plan	88,441	88,441
VEBA	775	840
Investments of MSU component units	157,530	143,610
Investments of UM component units	177,389	171,378
Real estate	17,970	18,193
Mortgages	68,838	68,261
Total	\$1,947,810	\$1,991,625
Total investments	\$2,270,385	\$2,291,022
Securities lending collateral investment pool	\$ 234,940	\$ 234,940

(1) The credit quality rating and duration are included below for the rated investments.

All Other Funds - Rated Securities
Credit Quality Rating and Effective Duration as of June 30, 2007
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Corporate (1)	\$ 440,549	A	3.89
U.S. government direct-backed (1)	59,916	AAA	4.62
U.S. government indirect-backed (1)	517,415	AAA	3.30
Total	\$1,017,880	AA	3.63

(1) These rated securities are reported on both Table 2 – Cash Equivalents and Table 4 – Investments.

The PERS Defined Contribution Retirement Plan and the deferred compensation plan's fixed assets were invested and managed on behalf of the plans by Pacific Investment Management Company (PIMCO) and State Street Bank Kansas City (SSKC). The third party record keeper, Great West Retirement Services, tracks and reports the daily trading and valuations of all investment options, including the assets held by the individual mutual fund companies. When participants invest in the fixed investment, they are guaranteed a rate of return. The PERS-DCRP fixed money is invested in a PIMCO mutual fund. The minimum average portfolio quality must be an A rating; the minimum issue quality must be a BB-rating; and the minimum commercial paper quality must be A2/P2. Variable investments are held and managed by a selection of retail and institutional mutual funds, which cover all standard asset classes and categories. VEBA (Voluntary Employee Benefit Association) investments are made in mutual fund equities and mutual fund fixed-income funds. The Montana 529 College Savings Plan is invested in Pacific Life mutual funds.

Investment Risk Disclosures

The investment risk disclosures are described in the following paragraphs and are identified by the specific securities to which they pertain, when applicable.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of the U.S. government securities, the AOF (All Other Funds) fixed-income instruments have credit risk as measured by major credit rating services. This risk is that the issuer of a fixed-income security may default in making timely principal and interest payments. The Board of Investment's policy requires AOF fixed-income investments, at the time of purchase, to be rated an investment grade as defined by Moody's and/or Standard & Poor's (S&P) rating services. The U.S. government securities are guaranteed directly or indirectly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The credit ratings presented in the above table are provided by S&P's rating services. If an S&P rating is not available, a Moody's rating has been used. Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30,

2007, all the fixed-income and other equity securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the board's custodial bank, State Street Bank. The Equity Index, Real Estate, Mortgage and Loan investments are registered in the name of the Montana Board of Investments. The US Bank Municipal Investors Account, State Street and US Bank repurchase agreements were purchased in the State of Montana Board of Investments name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. With the exception of one fund, the 20 remaining BOI investment policy statements for various state agencies do not address concentration of credit risk. One fund requires credit risk to be limited to 3 % in any one name except AAA rated issues will be limited to 6%. Investments issued or explicitly guaranteed by the U.S. government and investments by various state agencies are excluded from the concentration of credit risk requirement. As of June 30, 2007, Montana had concentration of credit risk exposure to Federal National Mortgage Association of 7.34%.

This concentration of credit risk includes the rated securities from Table 2 – Cash Equivalents and Table 4 – Investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The All Other Funds' investment policies do not formally address interest rate risk. In accordance with GASB Statement 40, the board has selected the effective duration method to disclose interest rate risk.

Corporate asset-backed securities are based on cash flows from principal and interest payments on underlying auto loan receivables, credit card receivables, and other assets. These securities, while sensitive to prepayments due to interest rate changes, have less credit risk than securities not backed by pledged assets.

Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). Both the credit quality ratings and duration have been calculated excluding cash equivalents. If duration has not been calculated, duration is indicated by NA (not applicable).

Specific Legal and Credit Risk

As of June 30, 2007, Montana was not aware of any specific legal or credit risks regarding any investments.

NOTE 4. DISAGGREGATION OF ACCOUNTS RECEIVABLE AND PAYABLE

A disaggregation of the net receivables and accounts payable (by fund type) as of June 30, 2007, follows (amounts in thousands):

A. Receivables

Receivables	Governmental Funds					
	General Fund	State Special Revenue	Federal Special Revenue	Coal Severance Tax Permanent	Land Grant Permanent	Nonmajor Governmental
Licenses and permits	\$ 6,642	\$ 4,526	\$ -	\$ -	\$ -	\$ -
Taxes	172,576	84,528	-	4,909	-	1,362
Charges for services/ fines/forfeitures	1,042	20,129	1,357	-	-	-
Investment income	4,596	5,798	81	3,732	4,731	3,425
Other	7,150	8,347	9,855	-	-	448
Total receivables	192,006	123,328	11,293	8,641	4,731	5,235
Less: allowance for doubtful accounts	(7,370)	(8,165)	(1,152)	-	-	-
Receivables, net	\$184,636	\$115,163	\$10,141	\$8,641	\$4,731	\$5,235

Receivables	Proprietary Funds			
	Unemployment Insurance	Economic Development Bonds	Nonmajor Enterprise	Internal Service
Charges for services	\$ -	\$ -	\$18,225	\$ -
Investment income	-	9,031	269	264
Contributions/premiums	7,533	-	5,024	4,670
Other	-	-	346	25
Total receivables	7,533	9,031	23,864	4,959
Less: allowance for doubtful accounts	(4,798)	-	(7)	-
Receivables, net	\$ 2,735	\$9,031	\$23,857	\$4,959

B. Payables

Payables	Governmental Funds					
	General Fund	State Special Revenue	Federal Special Revenue	Coal Severance Tax Permanent	Land Grant Permanent	Nonmajor Governmental
Tax refunds	\$105,397	\$ -	\$ -	\$-	\$ -	\$ -
Tax distributions to other govt	-	51,636	-	-	-	-
Vendors/individuals	49,653	50,801	96,004	-	-	3,795
Payroll	15,270	15,887	6,021	-	-	5
Accrued interest	-	85	-	-	4,537	21
Other	503	1,785	1,347	-	-	11
Total	\$170,823	\$120,194	\$103,372	\$-	\$4,537	\$3,832

Payables	Proprietary Funds			
	Unemployment Insurance	Economic Development Bonds	Nonmajor Enterprise	Internal Service
Vendors/individuals	\$431	\$ 1	\$8,518	\$5,692
Payroll	-	20	653	2,523
Accrued interest	-	1,343	2	-
Total	\$431	\$1,364	\$9,173	\$8,215

NOTE 5. CAPITAL ASSETS
A. Primary Government

Changes in capital asset balances for the fiscal year ended June 30, 2007, are reflected in the following table (in thousands):

Primary Government

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 378,483	\$ 39,166	\$ (1,221)	\$ 416,428
Construction work in progress	316,767	342,943	(305,972)	353,738
Other (2)	151,422	506	-	151,928
Total capital assets, not being depreciated	846,672	382,615	(307,193)	922,094
Capital assets, being depreciated				
Infrastructure	3,417,984	724,639	(632,628)	3,509,995
Land improvements	20,459	1,443	(260)	21,642
Buildings/improvements	385,966	9,594	(1,003)	394,557
Equipment	269,197	26,884	(14,883)	281,198
Other	3,666	4,239	(41)	7,864
Total capital assets, being depreciated	4,097,272	766,799	(648,815)	4,215,256
Less: accumulated depreciation for:				
Infrastructure	(1,377,835)	(417,185)	395,506	(1,399,514)
Land improvements	(3,130)	(1,058)	27	(4,161)
Buildings/improvements	(168,646)	(13,712)	761	(181,597)
Equipment	(166,447)	(23,513)	14,053	(175,907)
Other	(3,388)	(752)	536	(3,604)
Total accumulated depreciation	(1,719,446)	(456,220)	410,883	(1,764,783)
Total capital assets, being depreciated, net	2,377,826	310,579	(237,932)	2,450,473
Intangible assets (2)	16,079	33,504	(20,116)	29,467
Governmental activity capital assets, net	\$ 3,240,577	\$ 726,698	\$(565,241)	\$ 3,402,034

(1) The increases and decreases noted above include adjustments related to prior periods and corrections of errors.

(2) Land easements were reclassified from intangible assets to other – nondepreciable assets.

Primary Government (continued)

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 800	\$ -	\$ -	\$ 800
Construction work in progress	309	150	-	459
Total capital assets, not being depreciated	1,109	150	-	1,259
Capital assets, being depreciated				
Infrastructure	884	-	-	884
Land improvements	2,343	-	-	2,343
Buildings/improvements	7,301	14	-	7,315
Equipment	5,177	262	(152)	5,287
Total capital assets, being depreciated	15,705	276	(152)	15,829
Less: accumulated depreciation for:				
Infrastructure	(522)	(17)	-	(539)
Land improvements	(238)	(107)	-	(345)
Buildings/improvements	(3,938)	(220)	-	(4,158)
Equipment	(3,419)	(315)	111	(3,623)
Total accumulated depreciation	(8,117)	(659)	111	(8,665)
Total capital assets, being depreciated, net	7,588	(383)	(41)	7,164
Intangible assets	413	2,177	(2,315)	275
Business-type activity capital assets, net	\$ 9,110	\$1,944	\$(2,356)	\$ 8,698

(1) The increases and decreases noted above include adjustments related to prior periods and corrections of errors.

Depreciation expense was charged to governmental functions as follows (in thousands):

	Amount
General government	\$ 4,636
Public safety/corrections	7,579
Transportation (including depreciation of the highway system maintained by the State)	104,693
Health/social services	2,035
Education/cultural	18,596
Resource/recreation/environment (including depreciation of the State's dams).	3,147
Economic development/assistance	659
Depreciation and amortization on capital assets held by the State's internal service funds is charged to the various functions based on their usage of the assets.	11,303
Total depreciation expense – governmental activities	<u>\$152,648</u>

Depreciation expense was charged to business-type activities as follows (in thousands):

	Amount
Liquor Stores	\$ 96
State Lottery	31
General Government Services	183
Prison Funds	327
Total depreciation expense – business-type activities	<u>\$637</u>

B. Discretely Presented Component Units

The following table summarizes net capital assets reported by the discretely presented component units (in thousands). All component units, other than higher education units, are included under the "Other" caption for this schedule:

Discretely Presented Component Units

	Montana State University (MSU)	University of Montana (UM)	Other	Total
Capital assets, not being depreciated				
Land	\$ 6,624	\$ 7,126	\$ -	\$ 13,750
Construction work in progress	59,149	52,029	932	112,110
Capitalized collections	7,827	16,210	-	24,037
Total capital assets, not being depreciated	73,600	75,365	932	149,897
Capital assets, being depreciated				
Infrastructure	32,128	-	-	32,128
Land improvements	13,606	12,619	-	26,225
Buildings/improvements	310,785	334,116	-	644,901
Equipment	102,374	49,941	4,568	156,883
Other	63,080	50,945	-	114,025
Total capital assets, being depreciated	521,973	447,621	4,568	974,162
Less: accumulated depreciation	(310,414)	(259,879)	(2,769)	(573,062)
Total capital assets, being depreciated, net	211,559	187,742	1,799	401,100
Intangible assets	1,434	338	4,093	5,865
Capital assets (net) of MSU component units	10,047	-	-	10,047
Capital assets (net) of UM component units	-	4,709	-	4,709
Discretely presented component units				
Total capital assets, net	\$ 296,640	\$ 268,154	\$ 6,824	\$ 571,618

NOTE 6. RETIREMENT PLANS**Defined Contribution Plans**

ORP – Optional Retirement Program – Effective January 1, 1988 through June 30, 1993, eligible employees of the Montana University System (MUS) could elect to participate in the Optional Retirement Program (ORP). The ORP is a defined contribution retirement plan governed by Title 19, chapter 21 of the Montana Code Annotated. The plan is underwritten by the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF); only faculty and staff with contracts under the authority of the Board of Regents may participate. Those faculty and staff members who did not elect the ORP, participate in the Teachers Retirement System or the Public Employees Retirement System, benefit plans discussed in the next section. Beginning July 1, 1993, membership in the ORP was mandatory for eligible employees new to the MUS. The MUS is the only employer contributing to this plan.

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses, and the employee life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. Individuals are immediately vested with all contributions. Higher education units record employee/employer contribution expenditures in the affected higher education subfund when remitting contributions to the Commissioner of Higher Education. These monies are recorded in the Custodial Accounts Agency Fund. The Commissioner's Office then wire transfers the contributions to TIAA-CREF. The MUS is not liable for asset management or for providing benefits after the required contributions have been made to TIAA-CREF. Required employee contributions were 7.03% of salary; required employer contributions were 6.56% of salary, for a total of 13.59% of salary contributed to the ORP.

	TIAA-CREF <i>(in thousands)</i>
Covered payroll	\$158,576
Total payroll	325,568
Employer contributions	\$ 10,397
Percent of covered payroll	6.56%
Employee contributions	\$ 11,158
Percent of covered payroll	7.03%

PERS-DCRP – Public Employees Retirement System - Defined Contribution Retirement Plan – This plan is a multiple-employer plan created by the 1999 Legislature and is governed by Title 19, Chapters 2 & 3 of the MCA. The plan began receiving contributions on July 1, 2002.

All new hires initially are members of the Public Employees Retirement System - Defined Benefit Retirement Plan (PERS-DBRP). New hires have a 12-month window during which they may choose to transfer to the PERS-DCRP or remain in the current PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. The choice is irrevocable. Members of the defined contribution retirement plan will decide how to invest their contributions and a portion of their employer contributions among the offered investment options. The remaining portion of employer contributions will be used to maintain funding of the defined benefit plan, to provide disability benefits, and to fund an employee education program.

Deferred Compensation Plan

457 – Deferred Compensation Plan – The 457 plan was established in 1976 and is governed by Title 19, Chapter 50, MCA, in accordance with Internal Revenue Service Code (IRC) 457. All employees of the State, Montana University System, and contracting political subdivisions are eligible to participate. As of June 30, 2007, the net assets of the plan were \$288,888,994.

The 457 plan is a voluntary, supplemental retirement savings plan. Assets of the 457 plan are required to be held in trusts, custodial accounts, or insurance company contracts for the exclusive benefit of participants and their beneficiaries. Participants elect to defer a portion of their salary, within IRC limits. The deferred salary is not available to employees until separation from service, retirement, death, or upon an unforeseeable emergency while still employed and must meet IRC-specified criteria. Participant rights are fully vested in their accounts at the time of deposit.

Defined Benefit Plans**A. General**

The Public Employees Retirement Board (PERB), a discretely presented component unit of the State of Montana, administers eight defined benefit plans: Public Employees Retirement System (PERS-DBRP), Municipal Police Officers Retirement System (MPORS), Firefighters Unified Retirement System (FURS), Sheriffs Retirement System (SRS), Highway Patrol Officers Retirement System (HPORS), Judges Retirement System (JRS), Game Wardens and Peace Officers Retirement System (GWPORS), and Volunteer Firefighters Compensation Act (VFCA). The PERB prepares a publicly issued comprehensive annual financial report that includes financial statements and required supplementary information for PERS-DBRP, MPORS, FURS, SRS, HPORS, JRS, GWPORS,

VFCA, as well as the two defined contribution plans, PERS-DCRP and 457 plan. Separately issued financial statements can be obtained at 100 North Park, Suite 200, PO Box 200131, Helena, MT 59620-0131.

The financial statements for PERS-DBRP include activity for the defined benefit and the associated education fund. The PERS-DCRP financial statements include activity for the defined contribution and the associated education and disability funds.

A summary of government employers participating in PERS-DBRP, MPORS, FURS, SRS, HPORS, JRS, GWPORS, PERS-DCRP, 457, and TRS by employer type at June 30, 2007, follows:

Retirement Plan

	PERS-DBRP	MPORS	FURS	SRS	HPORS	JRS	GWPORS	PERS-DCRP	457	TRS
Employers										
State agencies	36		1	1	1	1	4	28	36	8
Counties	55			56				43	2	
Cities/towns	96	23	16					43	2	
Colleges/universities	5						3	5	6	5
School districts	238							84	2	358
Other	98							34	3	
Total	528	23	17	57	1	1	7	237	51	371

B. Plan Descriptions

The State contributes to and/or administers ten plans in two categories: (1) the State as the single employer; and (2) the State as an employer contributor to cost-sharing, multiple-employer plans.

The number of years required to obtain vested rights varies among the plans. All plans provide early retirement options, death benefits, termination, and disability benefits. The post-retirement benefits of each of the plans are included in the tables that follow.

The funding policies for each plan provide for periodic employer and employee contributions (except VFCA) at rates specified by state law. An actuary determines the actuarial implications of the funding requirement in an annual actuarial valuation. The actuarial method used to determine the implications of the statutory funding level is the entry-age normal-cost method, with both normal cost and amortization of the unfunded actuarial liability determined as a level percentage of payroll. To maintain a fund on an actuarially sound basis, the rate of contributions should fund the normal cost, in addition to amortizing the unfunded liability over a period not to exceed 30 years.

Effective June 30, 2007, the Montana Public Employees Retirement Administration (MPERA) implemented the provision of the Governmental Accounting Standards Board (GASB) Statement No. 50 – Pension Disclosures. The disclosures are amendments

The Teachers Retirement System (TRS) is a discretely presented component unit of the State of Montana. The plan prepares a publicly issued financial report that includes financial statements and required supplementary information for TRS. Separately issued financial statements can be obtained at 1500 Sixth Avenue, PO Box 200139, Helena, MT 59620-0139.

to GASB Statement 25, and present the disclosures of the actuarial methods, assumptions, and funded status of the plan in the financial notes.

(1) State as the Single Employer

HPORS – Highway Patrol Officers Retirement System

– This plan, established in 1971 and governed by Title 19, Chapters 2 & 6 of the Montana Code Annotated (MCA), provides retirement benefits for all members of the Montana Highway Patrol, including supervisory personnel. Members or their survivors may be eligible for an annual supplemental lump sum payment distributed each September. Many factors must be considered for eligibility, including the number of years the recipient has received a benefit and the recipient's age. This lump-sum payment is funded by the General Fund at the request of the PERB. The average payment in September 2007 was \$2,518. This enhancement is limited to non-GABA (Guaranteed Annual Benefit Adjustment) members. For the funded status, refer to the Required Supplementary Information (Schedule of Funding Progress).

JRS – Judges Retirement System – This plan, established in 1967 and governed by Title 19, Chapters 2 & 5 of the MCA, provides retirement benefits for all Montana judges of district courts, justices of the Supreme Court, and the Chief Water Judge. For the funded status, refer to the Required Supplementary Information (Schedule of Funding Progress).

(2) State as an Employer Contributor to Cost-Sharing, Multiple-Employer Plans

PERS-DBRP – Public Employees Retirement System - Defined Benefit Retirement Plan – This mandatory plan, established in 1945 and governed by Title 19, Chapters 2 & 3 of the MCA, provides retirement benefits to substantially all public employees not covered by another public plan.

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will be amortized over the next 21.9 years. This amortization period does not reflect the sunset provision for the additional contributions under House Bill 131; Title 19, Chapter 3, Part 316, MCA. Without the additional contributions effective July 1, 2007 and July 1, 2009, the amortization period for the unfunded actuarial liability would be 25.3 years. At June 20, 2006, the plan did not amortize over the next 30 years.

MPORS – Municipal Police Officers Retirement System – The plan, established in 1974 and governed by Title 19, Chapters 2 & 9 of the MCA, covers all municipal police officers of first and second-class cities covered by the plan. It is a cost-sharing defined benefit plan with a special funding situation.

As of July 1, 2002, eligible members of MPORS have the opportunity to participate in the Deferred Retirement Option Plan (DROP) by filing a one-time irrevocable election with the PERB. The DROP is governed by Title 19, Chapter 9, Part 12, MCA. An eligible member must have completed at least 20 years of membership service. They may elect to participate in the DROP for a minimum of one month and a maximum of five years and may participate in the DROP only once. A participant remains a member of the MPORS, but will not receive membership service or service credit in the plan for the duration of the member's DROP period. During the participation in the DROP, all mandatory contributions continue to be made to the retirement plan. A monthly benefit is calculated based on salary and years of service to the date of the beginning of the DROP period. The monthly benefit is paid into the DROP account until the end of the DROP participation period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP

period ends, the participant will again accrue membership service, and the DROP account cannot be distributed until employment is formally terminated.

FURS – Firefighters Unified Retirement System – This plan, established in 1981 and governed by Title 19, Chapters 2 & 13 of the MCA, provides retirement benefits for firefighters employed by first and second-class cities and other cities that adopt the plan and to firefighters hired by the Montana Air National Guard on or after October 1, 2001. It is a multiple-employer, cost-sharing defined benefit plan.

SRS – Sheriffs Retirement System – This plan, established in 1974 and governed by Title 19, Chapters 2 & 7 of the MCA, covers State Department of Justice criminal investigators hired after July 1, 1993, and all Montana sheriffs.

Effective July 1, 2005, Senate Bill 370, governed by Title 19, Chapter 7, Part 301, MCA, provided membership for county detention officers in the SRS. All detention officers hired after July 1, 2005, will be in the SRS. Existing detention officers may elect to remain in the PERS or elect to become a member of the SRS.

Actuarial Status: The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will be amortized over the next 19.6 years. This amortization period does not reflect the sunset provision for the additional contributions under House Bill 131; Title 19, Chapter 3, Part 316, MCA, or the guaranteed annual benefit adjustment. Without the additional contributions effective July 1, 2007 and July 1, 2009, the amortization period for the unfunded actuarial liability would be 31.4 years. At June 20, 2006, the plan did not amortize over the next 30 years.

GWPORS – Game Wardens & Peace Officers Retirement System – This plan, established in 1963 and governed by Title 19, Chapters 2 & 8 of the MCA, provides retirement benefits for all persons employed as a game warden, warden supervisory personnel, and state peace officers not eligible to join the SRS, HPORS, or MPORS plans.

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on

the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will be amortized over the next 11.3 years. This amortization period does not reflect the reduced guaranteed annual benefit adjustment under House Bill 131. As of June 30, 2006, the amortization period for the unfunded actuarial liability was 32.4 years.

VFCA – Volunteer Firefighters Compensation Act –

This compensation program, established in 1965 and governed by Title 19, Chapters 2 and 17 of the MCA, provides pension, disability and survivorship benefits for all volunteer firefighters who are members of qualified volunteer fire companies in unincorporated areas of the state. VFCA also provides limited medical expenses for injuries incurred in the line of duty. VFCA is a plan with a special funding situation.

TRS – Teachers Retirement System – This mandatory plan, established in 1937 and governed by Title 19, Chapter 20 of the MCA, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the university system.

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be

funded on actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will be amortized over the next 28.6 years. The 2007 Legislature appropriated an additional \$50 million; and increased the State's General Fund contribution rate from 0.11 to 2.11%, and the university system's supplemental contribution rate from 4.04 to 4.72%, effective July 1, 2007. The retirement system's funded status was also helped by a market rate of return of 17.64%. The plan's actuary has determined that as of July 1, 2007, the current employer contribution rate of 7.47% plus the General Fund contribution of 2.11% of members' salaries are sufficient to meet the actuarial cost. The unfunded actuarial accrued liability of \$768.9 million is included in the retirement plan's financial statements in the schedules of funding progress.

A summary of contribution rates, funding progress, employer contributions, and eligibility and benefits for each retirement plan is provided in the tables on the following pages.

**Schedule of Contribution Rates
Fiscal Year 2007**

Plan	Member	Employer	State
PERS-DBRP	6.9% [19-3-315, MCA]	6.9% State & University 6.8% Local Governments [19-3-316, MCA] 7.035% on or after 7/1/2007 (1)	0.1% of local government payroll - paid from the General Fund [19-3-319, MCA] 0.235% of school district on or after 7/1/2007 (1)
MPORS	5.8% - hired on or before 6/30/1975 & not electing GABA [19-9-710(a), MCA] 7.0% - hired after 6/30/1975 & prior to 7/1/1979 & not electing GABA [19-9-710(b), MCA] 8.5% - hired after 6/30/1979 & prior to 7/1/1997 & not electing GABA [19-9-710(c), MCA] 9.0% - hired after 6/30/1997 & members electing GABA [19-9-710(d), MCA]	14.41% [19-9-703, MCA]	29.37% of salaries - paid from the General Fund [19-9-702, MCA]
FURS	9.5% - hired prior to 7/1/1997 & not electing GABA [19-13-601(2)(a), MCA] 10.7% - hired after 6/30/1997 & members electing GABA [19-13-601(2)(b), MCA]	14.36% [19-13-605, MCA]	32.61% of salaries - paid from the General Fund [19-13-604, MCA]
SRS	9.245% [19-7-403, MCA]	9.535% [19-7-404, MCA] 9.825% on or after 7/1/2007 (1)	
HPORS	9.0% - hired prior to 7/1/1997 & not electing GABA 9.05% - hired after 6/30/1997 & members electing GABA [19-6-402, MCA]	26.15% [19-6-404(1), MCA] 10.18% of salaries - paid from driver license fees [19-6-404(2), MCA]	
JRS	7.0% [19-5-402, MCA]	25.81% [19-5-404, MCA]	
GWPORS	10.56% [19-8-502, MCA]	9.0% [19-8-504, MCA]	
VFCA			5.0% of fire insurance premiums - paid by the General Fund [19-17-301, MCA]
PERS-DCRP	6.9% [19-3-315, MCA]	6.9% State & University 6.8% Local Governments [19-3-316, MCA] 7.035% on, or after 7/1 2007 (1)	0.1% of local government payroll - paid from the General Fund [19-3-319, MCA]
TRS	7.15% [19-20-602, MCA]	7.47% [19-20-605, MCA] 9.47% on or after 7/1/2007 (1)	0.11% of members' salaries [19-20-604, MCA]

(1) The employer contribution will increase on July 1, 2007, for PERS (DBRP, DCRP), SRS, and TRS.

Pension Plan Information
Schedules of Funding Progress
(in thousands)
Single Employer Systems

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
HPORS						
6/30/2007	95,758	128,306	32,548	74.63%	9,858	330.17%
JRS						
6/30/2007	57,778	36,863	(20,915)	156.74%	4,841	(432.04%)

Multiple Employer Systems

PERS-DBRP						
6/30/2007	3,825,234	4,201,251	376,017	91.05%	907,424	41.44%
MPORS						
6/30/2007	198,310	310,423	112,113	63.88%	29,547	379.44%
FURS						
6/30/2007	188,545	269,399	80,854	69.99%	24,250	333.42%
SRS						
6/30/2007	183,894	189,036	5,142	97.28%	43,611	11.79%
GWPORS						
6/30/2007	68,755	72,992	4,237	94.20%	28,799	14.71%
TRS (1)						
7/1/2007	3,006,200	3,928,500	768,900	79.60%	664,100	115.80%

Nonemployer Contributor

VFCA						
6/30/2007	25,862	31,599	5,737	81.84%	N/A	N/A

(1) For TRS, the unfunded actuarial accrued liability (UAAL) amount doesn't equal column b minus column a as the UAAL amount includes the present value of future university supplemental contributions.

Pension Plan Information
Schedules of Employer Contributions and Other Contributing Entities
(in thousands)
Single Employer Systems

System	Fiscal Year Ended June 30	Annual Required Contributions	Percentage Contributed	Annual Required State Contribution	Percentage Contributed
HPORS	2005	3,307	100.50%	669	100.00%
	2006	2,862	101.50%	277	100.00%
	2007	3,581	101.48%	285	100.00%
JRS	2005	143	811.43%		
	2006	113	1,089.03%		
	2007	(230)	(542.23%)		

Multiple Employer Systems

PERS-DBRP	2005	71,523	82.06%	421	100.00%
	2006	69,312	91.54%	443	100.00%
	2007	60,253	110.41%	446	100.00%
MPORS	2005	3,775	100.41%	7,694	100.14%
	2006	3,983	101.30%	8,119	100.77%
	2007	4,258	100.58%	8,679	100.00%
FURS	2005	2,940	100.65%	6,677	100.63%
	2006	3,291	101.14%	7,473	100.80%
	2007	3,482	101.09%	7,908	100.63%
SRS	2005	3,475	80.95%		
	2006	3,897	90.42%		
	2007	4,176	105.04%		
GWPORS	2005	2,083	98.58%		
	2006	2,337	102.34%		
	2007	2,218	118.94%		
TRS	2005	57,150	100.00%		
	2006	158,962 (1)	223.00%		
	2007	112,664 (2)	130.00%		

Nonemployer Contributor

VFCA	2005			1,527	100.00%
	2006			1,610	100.00%
	2007			1,661	100.00%

(1) Annual required contribution amount includes a \$100 million one-time contribution made by the State in fiscal year 2006.

(2) Annual required contribution amount includes a \$50 million one-time contribution made by the State in fiscal year 2007.

Summary of Eligibility and Benefits

Plan	Member's Highest Average Compensation (HAC)	Years of Service Required and/or Age Eligible for Benefit	Vesting
PERS-DBRP	Highest average compensation during any consecutive 36 months	Service retirement: 30 years, any age; Age 60, 5 years of service; or Age 65, regardless of service Early retirement, actuarially reduced: Age 50, 5 years of service; or Any age, 25 years of service	5 years membership service
MPORS	Hired prior to 7/1/1977 – average monthly compensation of final year of service; hired after 6/30/1977 – final compensation for last consecutive 36 months	20 years, regardless of age; age 50, 5 years of service	5 years membership service
FURS	Hired prior to 7/1/1981 and not electing GABA – highest monthly compensation (HMC); hired after 6/30/1981 and those electing GABA – highest average compensation (HAC) during any consecutive 36 months	20 years, regardless of age; age 50, 5 years of service	5 years membership service
SRS	Highest average compensation during any consecutive 36 months	20 years membership service, regardless of age; age 50, 5 years of service, actuarially reduced	5 years membership service
HPORS	Highest average compensation during any consecutive 36 months	20 years of service, regardless of age; 5 years of membership service, actuarially reduced from age 60	5 years membership service
JRS	Hired prior to 7/1/1997 and non-GABA – monthly compensation at time of retirement; hired after 6/30/1997 or electing GABA – HAC during any consecutive 36 months (relates directly to monthly benefit formula)	Age 60, 5 years of membership service; any age with 5 years of membership service – involuntary termination, actuarially reduced	5 years membership service
GWPORS	Highest average compensation during any consecutive 36 months	Age 50, 20 years of membership service; age 55, 5 years of membership service	5 years membership service
VFCA		Age 55, 20 years of credited service (full benefit); age 60, 10 years of service (partial benefit). As of 4/25/2005 (Senate Bill 197), members may retire with greater than 20 years of service, but not more than 30 years of service.	10 years of service credit
PERS-DCRP		Termination of service	Immediate for member's contributions and attributable income; 5 years for employer's contributions and attributable income
TRS	Final average compensation during any consecutive 36 months	Age 60, 5 years of service, or any age with at least 25 years of service. Vested employees may retire at or after age 50 and receive reduced benefits.	5 years of membership service

Summary of Eligibility and Benefits *(continued)*

Plan	Monthly Benefit Formula	Guaranteed Annual Benefit Adjustment (GABA)	Minimum Benefit Adjustment (Non-GABA)
PERS-DBRP	Less than 25 years of membership service: 1.785% of HAC per year of service credit; 25 years of service or more: 2% of HAC per year of service credit	After the member has completed 12 full months of retirement, the member's benefit increases each January by a maximum of 3% for members hired before July 1, 2007, 1.5% for members hired on or after July 1, 2007, inclusive of other adjustments to the member's benefit.	
MPORS	2.5% of FAC per year of service credit	After the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.	If hired before 7/1/1997 and member did not elect GABA, the monthly retirement, disability or survivor's benefit may not be less than 1/2 the compensation of a newly confirmed officer in the city that the member was last employed.
FURS	Members hired prior to 7/1/1981 and not electing GABA are entitled to the greater of: 2.5% of HAC per year of service credit; or (1) if less than 20 years of service, 2% of HMC for each year of service; or (2) if more than 20 years of service, 50% of the member's HMC plus 2% of the member's HMC for each year of service credit over 20 years. Members hired after 6/30/1981 and those electing GABA receive 2.5% of HAC per year of service credit.	After the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.	If hired before 7/1/1997 and member did not elect GABA, the monthly retirement, disability or survivor's benefit may not be less than 1/2 the compensation of a newly confirmed firefighter employed by the city that last employed the member (provided the member has at least 10 years of service credit).
SRS	2.5% of HAC per year of service credit	After the member has completed 12 full months of retirement, the member's benefit increases each January by a maximum of 3% for members hired before July 1, 2007, 1.5% for members hired on or after July 1, 2007, inclusive of other adjustments to the member's benefit.	
HPORS	2.5% of HAC per year of service	Hired after 7/1/1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of other adjustments to the member's benefit.	Hired prior to 7/1/1997 – monthly benefits for non-GABA members are increased each July when they fall below a statutorily guaranteed minimum. Any annual increase is limited to 5% over the current benefit and may not exceed 60% of the current base salary of a probationary officer.
JRS	3 1/3% of current salary (non-GABA) or HAC (GABA) per year of service for the first 15 years, plus 1.785% per year for each year after 15 years	Hired after 7/1/1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other benefit adjustments to the members.	Hired prior to 7/1/1997 – current salary is used in the calculation of the monthly benefit each time the Legislature increases salaries for active judges.
GWPORS	2.5% of HAC per year of service credit	After the member has completed 12 full months of retirement, the member's benefit increases each January by a maximum of 3% for members hired before July 1, 2007, 1.5% for members hired on or after July 1, 2007, inclusive of other adjustments to the member's benefit.	
VFCA	\$7.50 per year of credited service, maximum \$225; if greater than 20 years of service (but not more than 30 years), maximum \$225		
PERS-DCRP	varies		
TRS	1.6667% of average final compensation (AFC) per year of service		

C. Summary of Significant Accounting Policies

The pension trust funds' financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and when the employer has made a formal commitment to provide the contributions. Benefits and refund distributions are recognized when due and payable in accordance with the terms of each plan.

D. Method Used to Value Investments

The Montana Board of Investments (BOI) manages the investments for the defined benefit retirement plans. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on a discounted cash flow. Investments that do not have an established market are reported at estimated fair value. These values are based on market prices supplied to the

BOI by its custodial bank, State Street Bank, and various brokerage services. The retirement plans have no investments with a single issuer whose fair value equals 5% or more of the retirement plans net assets available for benefits.

E. Long-term Contracts for Contributions

The Montana Legislature also enacted a provision of the Employee Protection Act (EPA) (Title 19, Chapter 2, Part 706. MCA), allowing state and university system employees, eligible for a service retirement, whose positions have been eliminated, to have their employer pay a portion of the total cost of purchasing up to three years of "1 for 5" additional service. As of June 30, 2007, 177 employees have taken advantage of the provision.

The employer has up to ten years to complete payment for the service purchases and is charged 8% interest on the unpaid balance. Total retirement incentive contributions received, including interest, during fiscal year 2007 were \$174,002. June 30, 2007, outstanding balances were \$42,865.

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, Retirement Plans, the following postemployment benefits are provided:

The State and the Montana University System (MUS) provide 18 to 36 months optional postemployment health care and dental benefits in accordance with Public Law 99-272, known as the Consolidated Omnibus Budget Reconciliation Act (COBRA), to the following employees and dependents who elect to continue and pay administratively established premiums: (1) employees who are covered by the State Group Benefits Plan at the time they discontinue state employment, and (2) spouses or other dependents who lose dependent eligibility. At June 30, 2007, 64 certificate holders were receiving these benefits from the State of Montana, and 97 from the Montana University System.

In accordance with MCA 2-18-704, the State also provides optional postemployment health care benefits to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees and dependents who retire under applicable retirement provisions and (2) surviving dependents of deceased employees. Retirement eligibility criteria differ by retirement plan (See Note 6). Administratively established retiree medical premiums vary between \$144 and \$726 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between \$27.80 and \$45.80, and vision premiums vary between \$7.64 and \$22.26 depending on the coverage selected. The State acts as secondary payor for retired Medicare-eligible claimants. As of June 30, 2007, there were 3,313 retirees covered for health care benefits.

The State reimburses all validated medical claims net of member obligations (annual deductibles and co-insurance of the members selected medical plan). Dental claims are reimbursed at 50% to 100% of the allowable charges, depending on the services provided. Vision services are provided at prices ranging from a \$10 copay to a \$125 allowance depending on the services obtained and the network status of the provider. Vision coverage is fully insured; therefore premium contributions reflect the total cost to the State during the year. The State funds claims on a pay-as-you-go basis and, in addition, maintains a claims fluctuation reserve equivalent to three months projected claims and operating costs. During the fiscal year, expenditures of \$21,759,000 were recognized for postemployment health care benefits. Premium contributions received from former employees amounted to \$15,237,000 leaving \$6,522,000 of claims paid in excess of premium revenue received by the State.

In accordance with MCA 2-18-704, the Montana University System provides postretirement health

insurance benefits to eligible employees who receive a retirement benefit from the Teachers Retirement System, Public Employees Retirement System, or an annuity under the Optional Retirement Plan and have been employed by the MUS at least five years, are age 50 or have worked 25 years with the MUS. Spouses, unmarried dependent children, and surviving spouses are also eligible.

Administratively established premiums vary between \$210 and \$673 per month, and are revised annually. The plan provides different coinsurance amounts depending on whether members use preferred, non-preferred, or other hospitals. After an annual \$600 deductible for most non-Medicare-eligible retirees, the MUS plan reimburses 75% of the first \$1,250 in medical claims and 100% thereafter. After a \$400 deductible for Medicare-eligible retirees, the plan reimburses 75% for the first \$1,250 in medical claims and 100% thereafter. There is an optional \$1,500 deductible plan available to retirees with a reduced premium. This plan has a small enrollment (77 enrollees). After the \$1,500 annual deductible, the plan pays 75% of the first \$8,000 and 100% thereafter. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare. As of June 30, 2007, 1,453 retirees were enrolled in the MUS plan.

Funding for the retiree health plan is on a pay-as-you-go basis. Based on amounts recorded through June 2007, expenditures of \$8,284,071 were recognized for postemployment health care benefits. Of this amount, \$6,027,661 was paid by retirees through premiums, and the balance of \$2,256,410 was paid by the MUS.

As of July 1, 2007, retirees can now choose a managed care option, if available, in their area. Prior to this option, their only choice was one of the traditional plans. The managed care premiums are lower and there are more first dollar benefits. After an in-network deductible of \$300, the plan reimburses 75% for the first \$2,000 and 100% thereafter. Managed care has a small enrollment. As of June 30, 2007, retiree enrollment in the managed care plans totaled 30 retiree policyholders.

For the fiscal year ending June 30, 2008, the State and the MUS will implement GASB Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This statement requires the disclosure of the employer liability for retiree medical subsidies and other postemployment benefits. The annual required contribution (ARC) will be equal to an amount required each year to fully fund the liability over 30 years. The estimated ARC for the State and the MUS has been estimated at \$29,892,000 and \$21,477,000, respectively. The amount of the estimated OPEB liability at transition was determined in accordance with the Statement, and has been estimated at \$306,150,000 for the State and \$218,963,000 for the MUS. These estimates were prepared by Buck Consultants based on 2005 data.

NOTE 8. RISK MANAGEMENT

There are three primary government public entity risk pools and one claims-servicing pool that are reported within the enterprise fund. These pools include Hail Insurance, the Montana University System (MUS) Group Benefits Plan, the Montana University System Workers Compensation funds, and the Subsequent Injury claims-servicing pool. The two component unit pools include Montana State Fund (New Fund) and Montana State Fund (Old Fund). Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. The primary government reports its own risk management activity within two internal service funds: Group Employees Comprehensive Medical and Dental Plan and Property and Casualty Insurance Plans. In all of these funds, there are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage for the last three years. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock, except for the Montana State Funds funds. Investments are recorded at fair value. Premiums and discounts are amortized using the straight-line method over the life of the securities.

A. Public Entity Risk Pools

(1) Hail Insurance – Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the Hail Insurance program. The Hail Insurance program issued 2,559 policies during the 2007 growing season. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs, and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a premium refund. Anticipated investment income is considered in computing a premium deficiency, of which there is none.

A claim must be submitted to the State Board of Hail Insurance within 14 days of a loss occurrence. The claim must indicate whether the grain is stemming, in the boot, heading out, in the milk, in the stiff dough, ready to bind, or combine. If beans, peas, or other crops are damaged, the growth-stage must also be indicated. Inspection of a crop will occur as promptly as possible after claim receipt. The liability on all insured crops expires after October 1. The insurance only covers loss or damage to growing grain that exceeds 5% destruction by hail.

The fund recorded a liability of \$518,781 based on estimated claims through June 30, 2007. Any crop

insurance liability is paid to producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance, reinsurance, or annuity contracts.

(2) Montana University System (MUS) Group Benefits Plan – This plan was authorized by the Board of Regents to provide medical, dental, and vision insurance coverage to employees of the Montana University System and the State Bar of Montana, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured, except for life insurance, long-term disability, accidental death and dismemberment, long-term care, and vision insurance. Allegiance Benefit Plan Management is the claims administrator for the self-insured indemnity plan and a managed care plan. New West Health Services, Blue Cross/Blue Shield of Montana, and Peak administers claims for the three other managed care plans. Star Point has a contract for utilization management; the utilization management program consists of hospital pre-authorization and medical necessity review. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance Enterprise Fund. The claims liability is calculated by Mercer Consultants and estimated to be \$6,250,000 as of June 30, 2007, based on prior year experience. A liability is reported in the accompanying financial statements for these estimated claims.

(3) Montana University System (MUS) Workers Compensation Program – This fund was formed to provide self-insured workers compensation coverage for employees of the Montana University System. The Montana University System Board of Regents provides workers compensation coverage under Compensation Plan Number One (Title 39, Chapter 71, Part 2101, MCA). The program is self-insured for workers compensation claims to a maximum of \$500,000 per each occurrence. Losses in excess of \$500,000 are covered by reinsurance with a commercial carrier. Employer's liability claims are covered to a maximum of \$1,000,000 above the self-insured amount of \$500,000. During fiscal year 2007, the program ceded \$238,020 in premiums to reinsurers.

Premium rates for all participating employees are based on rates established by the MUS Workers Compensation Program Committee. Premium rates are adjusted periodically based on inflation, claims experience, and other factors. Premiums are recorded as revenue in the MUS Workers Compensation Program in the period for which coverage is provided. Members may be subject to supplemental assessments in the event of deficiencies. The program considers anticipated investment income in determining if a premium deficiency exists.

The fund recorded a liability of \$5,503,000 for estimated claims at June 30, 2007. The liability is based on the estimated ultimate cost of settling the reported and unreported claims, and claims reserve development including the effects of inflation and other societal and economic factors. Estimated amounts of subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Estimated claims liabilities are recomputed periodically based on current review of claims information, experience with similar claims, and other factors. Adjustments to estimated claims liabilities are recorded as an increase or decrease in claims expense in the period the adjustments are made.

(4) Subsequent Injury – This fund provides benefits to workers, certified as disabled at the time of hiring, who are subsequently injured on the job and entitled to benefits under the Workers Compensation or Occupational Disease Act at the time of injury. The liability of the insurer for payment of compensation benefits is limited to 104 weeks of benefits actually paid. This fund will reimburse the insurer for all benefits paid after this 104-week time period.

Workers compensation insurance premium experience modification factors are influenced by the two-year limitation, and employers may experience an insurance premium reduction. Therefore, this fund provides employers with a potential incentive for hiring a person with a certified disability.

This fund makes no provision for insured events of the current year. All Montana insurers are annually assessed a percentage of their paid losses sufficient to cover paid losses reimbursed from the fund in the preceding calendar year and the expenses of administration, less other income. An estimated liability is recorded based on a projected cost analysis (case-by-case) of each injured person with a certified disability. As of June 30, 2007, the amount of this liability was estimated to be \$3,205,877. Since each insurer is responsible for its own claim liabilities, the pool is acting as a claims service and there is no transfer or pooling of risk.

(5) State Fund (New Fund) – This fund provides liability coverage to employers for injured employees who are insured under the Workers Compensation and Occupational Disease Acts of Montana and workers compensation claims occurring on or after July 1, 1990, are reported in the New Fund. The New Fund is a self-supporting, competitive State fund, and functions as the insurer of last resort. At June 30, 2007, approximately 28,499 employers were insured with the New Fund. Anticipated investment income is considered for computing a premium deficiency, and employers must pay premiums to the New Fund within specified time frames.

An actuarial study prepared by Tillinghast-Towers Perrin, as of June 30, 2007, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. Because actual claim costs depend on such complex factors as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. As of June 30, 2007, \$679,209,000 of unpaid claims and claim adjustment expenses were presented at face value. When the New Fund purchases annuity contracts, the claim is settled in full and on a final basis, and all liability of the New Fund is terminated.

Acquisition costs represent costs associated with the acquisition of new insurance contracts or renewal of existing contracts and include agent commissions and expenses incurred in the underwriting process. New Fund acquisition costs are capitalized and amortized ratably over the subsequent year. The amount of capitalized acquisition costs for the fiscal year ended June 30, 2007, was \$3,874,087. For the fiscal year ended June 30, 2007, \$774,963 of acquisition costs were amortized.

Statute requires the New Fund set premiums at least annually at a level sufficient to insure adequate funding of the insurance program during the period the rates will be in effect. Statute also requires the New Fund to establish a minimum surplus above risk-based capital requirements to secure the New Fund against risks inherent in the business of insurance.

(6) State Fund (Old Fund) – The liability and payment of workers compensation claims for incidents occurring before July 1, 1990, are reported in the Old Fund.

An actuarial study prepared by Tillinghast-Towers Perrin, as of June 30, 2007, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. At June 30, 2007, \$98,232,540 of unpaid claims and claim adjustment expenses were reported at a net present value of \$75,063,078, discounted at a 5.0% rate.

(7) Changes in Claims Liabilities For the Past Two Years – As indicated above, these funds establish liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following tables present changes (in thousands) in those aggregate liabilities during the past two years. All information in these tables is presented at face value and has not been discounted.

	Primary Government				MUS Workers Compensation Program	
	Hail Insurance		MUS Group Benefits			
	2007	2006	2007	2006	2007	2006
Unpaid claims and claim adjustment expenses at beginning of year	\$ 94	\$ 191	\$ 6,250	\$ 4,619	\$ 4,538	\$ 3,138
Incurring claims and claim adjustment expenses:						
provision for insured events of the current year	1,206	2,447	54,158	48,163	2,600	2,453
Increase (decrease) in provision for insured events of prior years	381	(320)	-	1,631	(499)	62
Total incurred claims and claim adjustment expenses	1,587	2,127	54,158	49,794	2,101	2,515
Payments:						
Claims and claim adjustment expenses attributable to insured events of the current year	(687)	(2,033)	(54,158)	(48,163)	(368)	(391)
Claims and claim adjustment expenses attributable to insured events of prior years	(475)	(191)	-	-	(768)	(724)
Total payments	(1,162)	(2,224)	(54,158)	(48,163)	(1,137)	(1,115)
Total unpaid claims and claim adjust. exp. at end of the year	\$ 519	\$ 94	\$ 6,250	\$ 6,250	\$ 5,503	\$ 4,538

	Component Units			
	Montana State Fund (New Fund)		Montana State Fund (Old Fund)	
	2007	2006	2007	2006
Unpaid claims and claim adjustments expenses at beginning of year	\$ 590,688	\$ 511,557	\$ 97,769	\$104,852
Incurring claims and claim adjustment expenses:				
Provision for insured events of the current year	189,203	170,399	-	-
Increase (decrease) in provision for insured events of prior years	34,046	35,439	11,209	3,811
Total incurred claims and claim adjustment expenses	223,249	205,838	11,209	3,811
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	(38,677)	(36,132)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	(96,051)	(90,575)	(10,745)	(10,894)
Total payments	(134,728)	(126,707)	(10,745)	(10,894)
Total unpaid claims and claim adjust. exp. at end of the year	\$ 679,209	\$ 590,688	\$ 98,233	\$ 97,769

(8) Risk Management Trend Information – The following tables only present risk management trend information for the State Fund (New Fund) and the MUS Workers Compensation Insurance. Both funds have a three to five-year development cycle contemplated by GASB Statement 10. The State Fund (Old Fund) does not charge a premium for its services. The Hail Insurance Fund pays claims within a calendar year cycle that parallels the growing season from spring planting to fall harvesting; therefore, it has no three to five-year development cycle. The MUS Group Benefits Fund pays claims within the calendar year, and the plan limits the timing for submission of claims; therefore, it has no three to five-year development cycle. State statute limits the payment of claims and the collection of premiums (and penalties) for the Subsequent Injury Fund from any developmental cycle.

The tables illustrate how the earned revenues (net of reinsurance) of the funds and their investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the funds as of the end of the fiscal year (in thousands). Section 3

shows the funds' incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred. Section 4 shows the cumulative amounts paid as of the end of successive years for each policy year. Section 6 shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. Section 7 compares the latest re-estimated incurred claims amount to the amount originally established (Section 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. This table will be revised as data for successive policy years develops.

		MUS Workers Compensation Program			
		2007	2006	2005	2004
1. Premiums and investment revenue					
Earned		\$4,392	\$3,709	\$3,048	\$2,425
Ceded		(238)	(199)	(197)	(151)
Net earned		\$4,154	\$3,510	\$2,851	\$2,274
2. Unallocated expenses including overhead		\$ 259	\$ 264	\$ 280	\$ 227
3. Estimated losses and expenses end of accident year					
Incurred		\$2,600	\$2,453	\$2,366	\$2,174
Ceded		-	-	-	-
Net incurred		\$2,600	\$2,453	\$2,366	\$2,174
4. Net paid (cumulative) as of:					
End of policy year		\$ 367	\$ 391	\$ 382	\$ 552
One year later			910	1,002	1,020
Two years later				1,228	1,124
Three years later					1,148
5. Re-estimated ceded losses and expenses		\$ -	\$ -	\$ -	\$ -
6. Re-estimated net incurred losses and expense:					
End of policy year		\$2,600	\$2,453	\$2,366	\$2,174
One year later			2,267	2,565	2,174
Two years later				2,459	2,037
Three years later					1,830
7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year		\$ -	\$ -	\$ 199	\$ (137)

(State Fund (New Fund) Table presented on next page)

	1998	1999	2000	2001	State Fund (New Fund)		2004	2005	2006	2007
					2002	2003				
1. Premiums and investment revenue										
Earned	\$110,007	\$91,202	\$93,441	\$110,576	\$117,765	\$154,769	\$162,059	\$218,988	\$237,782	\$272,722
Ceded	303	260	855	2,952	(465)	5,654	6,563	6,788	13,618	14,856
Net earned	\$109,704	\$90,942	\$92,586	\$107,624	\$118,230	\$149,115	\$155,496	\$212,200	\$224,164	\$257,867
2. Unallocated expenses including overhead	\$ 14,364	\$18,992	\$22,048	\$ 26,698	\$ 29,350	\$ 32,506	\$ 38,872	\$ 40,816	\$ 43,400	\$ 47,680
3. Estimated losses and expenses end of accident year										
Incurred	\$ 64,983	\$64,645	\$65,957	\$ 68,267	\$ 81,560	\$110,153	\$120,705	\$134,290	\$155,057	\$170,652
Ceded	-	-	-	-	-	-	-	-	-	-
Net incurred	\$ 64,983	\$64,645	\$65,957	\$ 68,267	\$ 81,560	\$110,153	\$120,705	\$134,290	\$155,057	\$170,652
4. Net paid (cumulative) as of:										
End of policy year	\$ 12,943	\$13,723	\$13,177	\$ 14,140	\$ 16,693	\$ 22,982	\$ 26,123	\$ 25,721	\$ 30,977	\$ 32,708
One year later	28,222	29,976	29,218	32,888	38,185	48,861	50,888	57,239	66,063	
Two years later	35,753	39,298	37,555	45,218	52,359	63,773	66,140	72,229		
Three years later	41,004	45,748	43,649	55,248	60,029	72,957	74,697			
Four years later	44,478	49,984	48,322	61,846	64,922	79,060				
Five years later	47,584	54,212	52,027	66,031	68,343					
Six years later	50,188	56,974	54,473	69,553						
Seven years later	52,240	59,935	57,077							
Eight years later	54,004	62,158								
Nine years later	55,639									
5. Re-estimated ceded losses and expenses	\$ 609	\$ 1,940	\$ -	\$ -	\$ -	\$ 8,600	\$ -	\$ -	\$ -	\$ -
6. Re-estimated net incurred losses and expense:										
End of policy year	\$ 64,983	\$64,645	\$65,957	\$ 68,267	\$ 81,560	\$110,153	\$120,705	\$134,290	\$155,057	\$170,652
One year later	64,308	64,348	66,421	71,094	86,799	110,532	112,609	136,235	157,711	
Two years later	60,467	66,660	66,662	81,053	91,241	112,443	124,413	138,447		
Three years later	61,989	69,345	70,302	88,157	94,615	117,245	127,827			
Four years later	64,944	72,435	72,492	92,329	99,755	115,414				
Five years later	67,312	73,710	73,423	95,727	100,925					
Six years later	67,772	75,537	76,048	98,124						
Seven years later	68,601	78,046	77,930							
Eight years later	69,764	80,116								
Nine years later	71,099									
7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year	\$ 6,116)	\$15,472	\$11,973	\$29,857	\$ 19,365	\$ 5,261	\$ 7,122	\$ 4,157	\$ 2,654	\$ -

B. Entities Other Than Pools

(1) Employee Group Benefits – The medical and dental health plans provided by the State are fully self-insured with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees, former employees covered by COBRA benefits, and their dependents. The State contracts with Blue Cross/Blue Shield, PEAK, New West, and PharmaCare for administration of its self-insured plans. Premiums are collected through payroll deductions, deductions through the Public Employees Retirement Administration, the Legislative Branch, and self-payments, and are recorded as revenue in the Employee Group Benefits Internal Service Fund. At June 30, 2007, estimates for claims liabilities, which include both incurred but not reported claims and grandfathered claims resulting from a 1998 change in period for which the benefit coverage is available, were \$12,507,984 based on a formula provided by Mercer Human Resource Consulting, a consulting actuarial firm, of which \$10,940,359 is estimated to be paid in fiscal year 2008.

(2) Administration Insurance Plans – This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, foster care liability, and state-administered foreclosure of housing units. The State self-insures the \$250,000 deductible per occurrence for most property insurance, as well as various deductible amounts for other state property. The State also self-insures against losses of property below \$250,000 of value, with state agencies paying the first \$1,000. Commercial property insurance protects approximately \$3.4 billion of state-owned buildings and contents. The State's property insurance includes separate earthquake and flood protection coverage, with deductibles of \$250,000 for earthquake and \$250,000 for flood per occurrence. Premiums are collected from all state agencies, including component units, and recorded as revenue in the Administration Insurance Internal Service Fund.

An annual actuarial study, prepared by Tillinghast-Towers Perrin Company, and issued for the accident period July 1, 1997 through June 30, 2007, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. The June 30, 2007 estimated claims liability was \$15,120,936.

(3) Changes in Claims Liabilities for the Past Two Years – These funds establish liabilities for both reported and incurred, but not reported, claims. The following table presents changes in the balances of claims liabilities during the past two fiscal years (in thousands):

	Group Employees Benefits		Administration Insurance	
	2007	2006	2007	2006
Amount of claims liabilities at the beginning of each fiscal year	\$ 12,517	\$ 11,675	\$16,216	\$20,328
Incurring claims:				
Provision for insured events of the current year	90,932	84,473	5,539	5,636
Increases (decreases) in provision for insured events of prior years	(9)	842	(635)	(5,017)
Total incurred claims	90,923	85,315	4,904	619
Payments:				
Claims attributable to insured events of the current year	(77,292)	(71,802)	(653)	(1,061)
Claims attributable to insured events of prior years	(13,640)	(12,671)	(5,346)	(3,670)
Total payments	(90,932)	(84,473)	(5,999)	(4,731)
Total claims liability at end of each fiscal year	\$ 12,508	\$ 12,517	\$15,121	\$16,216

NOTE 9. COMMITMENTS**A. Highway Construction**

At June 30, 2007, the Department of Transportation had contractual commitments of approximately \$168.7 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matching state special revenue funds.

B. Capital Construction

At June 30, 2007, the Department of Administration, Architecture & Engineering Division, had commitments of approximately \$28.2 million for capital projects construction. The primary government will fund \$21.3 million of these projects, with the remaining \$6.9 million coming from the state university system.

C. Coal Tax Loan and Mortgage Commitments

The Board of Investments (BOI) makes firm commitments to fund loans from the Coal Severance Tax Permanent Trust Fund. These commitments have expiration dates and may be extended according to the BOI's policies. As of June 30, 2007, the BOI had committed but not yet purchased \$12,042,000 in loans from Montana lenders. In addition to the above commitments, lenders had reserved \$40,754,872 for loans as of June 30, 2007.

The BOI makes reservations to fund mortgages from the Public Employees and Teachers retirement funds. As of June 30, 2007, the BOI had mortgage reservations/commitments totaling \$791,491.

D. Proprietary Fund Commitments

Budgets are administratively established in the enterprise and internal service funds, excluding depreciation, compensated absences, and bad debt expense. Appropriations may be committed for goods/services that are not received as of fiscal year-end. These executory commitments are included in unrestricted net assets in the accompanying financial statements as follows (in thousands):

	<u>Amount</u>
<u>Enterprise funds</u>	
Liquor Warehouse	\$ 195
Other Enterprise Funds	98
State Lottery	27
Subtotal-enterprise funds	<u>\$ 320</u>
<u>Internal service funds</u>	
Info Tech Services Division	\$2,140
Buildings and Grounds	329
DEQ Indirect Cost Pool	71
Admin Supply	49
Commerce Central Services	9
FWP Equipment	3
Subtotal-internal service funds	<u>\$2,601</u>
Total	<u><u>\$2,921</u></u>

NOTE 10. LEASES/INSTALLMENT PURCHASES PAYABLE

The State has entered into various capital and operating leases for land, buildings, equipment, and computer software. Lease contracts are required by law to contain a clause indicating continuation of the lease is subject to funding by the Legislature. It is expected, in the normal course of operations, that most of these leases will be replaced by similar leases.

A. Capital Leases/Installment Purchases

Obligations under capital leases/installment purchases at June 30, 2007, were as follows (in thousands):

Fiscal Year Ending June 30	Primary Government	Discretely Presented Component Units		
	Governmental Activities	Montana State University	University of Montana	Total
2008	\$ 481	\$32	\$186	\$218
2009	222	25	163	188
2010	141	9	115	124
2011	138	-	31	31
2012	176	-	-	-
Total minimum pmts	1,158	66	495	561
Less: interest	(101)	(8)	(64)	(72)
Present value of minimum payments	<u>\$1,057</u>	<u>\$58</u>	<u>\$431</u>	<u>\$489</u>

B. Operating Leases

Primary government rental payments for operating leases in fiscal year 2007 totaled \$15,473,000. Future rental payments under operating leases are as follows (in thousands):

Fiscal Year Ending June 30	Primary Government	Discretely Presented Component Units
2008	\$ 15,693	\$ 2,728
2009	14,139	2,189
2010	11,824	1,952
2011	10,824	1,357
2012	8,061	1,185
2013-2017	30,179	5,384
2018-2022	12,647	2,164
2023	1,772	-
Total future rental payments	<u>\$105,139</u>	<u>\$16,959</u>

NOTE 11. STATE DEBT
A. General Information

The State has no constitutional limit on its power to issue obligations or incur debt, other than a provision that no debt may be created to cover deficits incurred because appropriations exceeded anticipated revenues. The Board of Examiners (consisting of the Governor, Secretary of State, and Attorney General) is authorized, pursuant to various enabling acts, to issue bonds and notes of the State.

B. Short-term Debt

The Board of Examiners, upon recommendation of the Department of Administration, may issue notes in anticipation of the receipt of taxes and revenues. No notes may be issued to refund outstanding notes. The notes must be redeemed by the end of the fiscal year in which issued. No revenue anticipation notes were issued during fiscal year 2007.

The Board of Investments (BOI) of the State of Montana is authorized to issue Intermediate Term Capital (INTERCAP) bonds under the Municipal Finance Consolidation Act. These bonds may not aggregate more than \$190 million as amended by the 2007 Legislature. The purpose of the bonds is to provide funds for the BOI to make loans to eligible government units. The bonds are limited obligations of the BOI, payable solely from (1) repayments of principal and interest on loans made by the BOI to participating eligible governmental units, (2) investment income under the indenture, and (3) an irrevocable pledge by the BOI. The BOI has no taxing power. Bondholders may elect to have their bonds purchased by the trustee on March 1 of each year until maturity. These issues are considered to be demand bonds and are included in short-term debt. The amounts issued and outstanding at June 30, 2007, were as follows (in thousands):

Series	Amount Issued	Balance June 30, 2007
1994	7,500	\$ 6,745
1995	7,500	6,915
1997	10,000	9,605
1998	12,500	12,200
2000	15,000	14,865
2003	15,000	14,755
2004	18,500	18,375
2007	15,000	15,000
Total		<u>\$98,460</u>

The following schedule summarizes the activity relating to the demand bonds during the year ended June 30, 2007 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
Demand bonds	\$83,620	\$15,000	\$160	\$98,460

C. Long-term Debt

The full faith, credit, and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees, and assets of the State and the various colleges and universities. Primary government bonds and notes outstanding at June 30, 2007, were as follows (in thousands):

Governmental Activities	Series	Amount Issued	Interest Range (%) (1)	Principal Payments		Balance June 30, 2007
				Fiscal Year 2008	In Year of Maturity (2)	
General obligation bonds						
Long-Range Bldg Program	1997B	\$ 12,640	4.5-5.0	\$ 945	945 (2008)	\$ 945
Wastewater Treatment Works Revolving Fund (3)	1998A	3,510	3.75-5.15	155	260 (2019)	2,450
Long-Range Bldg Program	1998B	34,545	4.2-5.1	1,620	2,555 (2018)	5,075
Information Technology	1998C	41,390	4.5-5.0	4,075	4,075 (2008)	4,075
Long-Range Bldg Program Refunding	1998D	14,855	4.4-5.0	1,235	1,720 (2015)	11,685
Energy Conservation Program (5)	1998E	1,250	3.6-4.6	150	150 (2008)	150
Long-Range Bldg Program	1999C	16,990	4.0-5.0	750	785 (2009)	1,535
Drinking Water Revolving Fund (3)	1998F	3,065	3.6-4.85	145	230 (2019)	2,195
Drinking Water Revolving Fund (3)	2000A	2,990	4.25-5.6	120	240 (2021)	2,390
Water Pollution Control Revolving Fund (3)	2000B	3,325	4.25-5.6	130	270 (2021)	2,660
Long-Range Bldg Program	2000C	17,195	5.0-5.55	685	800 (2011)	2,965
Long-Range Bldg Program	2001B	11,430	4.1-5.75	450	830 (2021)	8,625
Information Technology	2001C	1,600	3.85-4.2	165	185 (2011)	695
Energy Conservation Program (5)	2001D	1,250	3.85-4.2	125	145 (2011)	540
Renewable Resource Program (4)	2001E	1,040	5.2-6.8	60	105 (2017)	790
Drinking Water Revolving Fund (3)	2001G	3,190	4.0-5.0	125	235 (2022)	2,625
Water Pollution Control Revolving Fund (3)	2001H	2,690	4.0-5.0	110	200 (2022)	2,210
Long-Range Bldg Program	2002B	10,475	3.35-4.7	440	730 (2023)	8,860
Hard Rock Mining Reclamation	2002C	2,500	3.5-4.7	90	200 (2023)	2,185
Long-Range Bldg Program Refunding	2002D	15,805	2.5-3.7	1,365	1,685 (2014)	10,595
Long-Range Bldg Program	2003A	9,730	2.37-4.0	410	655 (2024)	8,605
Energy Conservation Program (5)	2003B	1,250	2.0-3.0	120	145 (2014)	915
Renewable Resource Program Refunding (4)	2003C	1,970	1.45-5.25	60	90 (2019)	865
Water Pollution Control Revolving Fund (3)	2003D	2,730	2.0-3.1	160	190 (2014)	1,225
Drinking Water Revolving Fund (3)	2003E	1,675	2.0-3.1	100	115 (2014)	745
Long-Range Bldg Program Refunding	2003G	26,610	2.0-5.0	2,035	2,310 (2017)	20,535
Information Technology Refunding	2003H	8,725	2.0-4.0	2,080	2,225 (2010)	6,455
Water Pollution Control Revolving Fund (3)	2004A	2,665	2.0-3.8	150	230 (2020)	2,390
Long-Range Bldg Program	2004B	3,125	3.0-4.75	165	170 (2025)	2,835
Long-Range Bldg Program Refunding	2005A	14,945	3.0-5.25	35	1,205 (2019)	14,910
Long-Range Bldg Program	2005B	1,670	3.25-4.3	60	120 (2026)	1,625
Energy Conservation Program (5)	2005C	2,500	3.25-4.0	225	290 (2016)	2,300
CERCLA Program (6)	2005D	2,000	3.25-4.3	75	140 (2026)	1,945
Drinking Water Revolving Fund (3)	2005F	3,875	4.0-4.75	200	350 (2021)	3,715
Water Pollution Control Revolving Fund (3)	2005G	2,110	4.0-4.75	110	190 (2021)	2,020
Long-Range Bldg Program Refunding	2005H	10,055	3.0-5.0	45	1,300 (2020)	9,890
Long-Range Bldg Program	2006A	31,350	4.0-5.0	990	1,930 (2027)	31,350
Energy Conservation Program (5)	2006B	3,750	4.0-6.0	150	330 (2022)	3,750
CERCLA Program (6)	2006C	1,000	4.0	75	120 (2017)	1,000
Renewable Resource Program (4)	2006D	950	5.6-6.0	35	90 (2022)	950
Long-Range Bldg Program Refunding	2007A	16,740	4.25-5.0	-	2,465 (2018)	16,740
Total general obligation bonds		\$351,160		\$20,220		\$208,015
Special revenue bonds						
State Hospital Project (7)	1997	\$ 25,915	4.0-5.05	\$ 920	1,820 (2022)	\$ 19,830
Renewable Resource Program (8)	1997A	1,205	6.0-7.3	55	110 (2018)	855

Governmental Activities	Series	Amount Issued	Interest Range (%) (1)	Principal Payments		Balance June 30, 2007
				Fiscal Year 2008	In Year of Maturity (2)	
Renewable Resource Program (8)	1997B	2,660	3.75-5.37	125	210 (2018)	1,795
Renewable Resource Program (8)	2001A	420	3.65-5.59	15	30 (2021)	330
Renewable Resource Program (8)	2001B	1,750	5.2-7.1	65	150 (2021)	1,435
Renewable Resource Program Refunding (8)	2001C	12,155	2.55-4.3	-	790 (2013)	3,605
Broadwater Power Proj Refunding (8)	2001D	21,450	2.25-4.7	1,200	1,795 (2018)	16,085
Renewable Resource Program (8)	2001E	885	2.1-4.85	35	65 (2022)	720
Renewable Resource Program (8)	2001F	900	3.3-6.2	35	75 (2022)	760
Developmental Center Project Refunding (7)	2003	11,510	3.0-5.0	605	970 (2019)	9,270
Renewable Resource Program (8)	2003A	3,000	1.05-4.05	115	215 (2024)	2,665
Renewable Resource Program Refunding (8)	2004A	5,070	2.15-2.95	935	905 (2009)	1,635
Renewable Resource Program (8)	2004B	430	4.45-5.45	20	40 (2020)	390
U.S. Highway 93 GARVEES (9)	2005	122,795	3.65-5.19	6,375	11,315 (2020)	111,705
Total special revenue bonds		<u>\$210,145</u>		<u>\$10,500</u>		<u>\$171,080</u>
Notes payable						
Water Conservation (Little Dry Project) (10)		\$ 50	5.0	\$ 2	1 (2012)	\$ 11
Water Conservation (Petrolia Project) (10)		50	5.0	2	2 (2016)	20
Middle Creek Dam Project (11)		3,272	8.125	51	208 (2034)	2,742
Tongue River Dam Project (12)		11,300	-	290	290 (2038)	8,982
Total notes payable		<u>\$ 14,672</u>		<u>\$ 345</u>		<u>\$ 11,755</u>
Subtotal governmental activities, before deferred balances						390,850
Deferred amount on refunding						(4,840)
Unamortized discount						(133)
Unamortized premium						10,090
Total governmental activities		<u>\$575,977</u>		<u>\$31,065</u>		<u>\$395,967</u>
Business-type Activities						
Bonds/notes payable						
<u>Economic Development Bonds (13)</u>						
Municipal Finance Consolidation Act Bonds (Irrigation Program) (14)	1988	\$ 4,976	6.60-7.75	\$ 45	70 (2014)	\$ 390
Conservation Reserve Enhancement Program (CRP Bonds) (15)		2,287	6.0-7.50	617	102 (2016)	2,287
Subtotal economic dev bonds		<u>7,263</u>		<u>662</u>		<u>2,677</u>
MUS Workers Compensation Bonds Payable		2,050	2.8	430	430 (2008)	430
Total business-type activities		<u>\$ 9,313</u>		<u>\$ 1,092</u>		<u>\$ 3,107</u>

(1) The interest range is over the life of the obligation.

(2) Year of maturity refers to fiscal year.

(3) These bonds provide matching funds to enable the State to obtain capitalization grants from the U.S Environmental Protection Agency for water system development loans to state political subdivisions.

(4) The general obligation Renewable Resource Program Bonds are secured additionally by a pledge of, and payable from, certain coal severance taxes. The bonds are also secured by a pledge of loan repayments from loans made from the bond proceeds.

(5) Bonds issued for financing the design, construction, and installation of energy conservation projects at various state buildings.

(6) The CERCLA (Comprehensive Environmental Response, Compensation, and Liability Act) Program Bonds were issued for the purpose of financing the costs of State of Montana participation in the remedial actions under Section 104 of the CERCLA 42 United States Code Sections 9601-9657, and State of Montana costs for maintenance of sites under CERCLA. The CERCLA Bonds are secured additionally by a

pledge of monies received by the State as cost recovery payments and revenues derived from the resource indemnity and groundwater assessment tax in the event cost recovery payments are insufficient.

- (7) Facility Finance Authority loan to the Department of Public Health and Human Services for the Montana Developmental Center Project and the Montana State Hospital Project.
- (8) Issued by the Department of Natural Resources and Conservation and backed by a pledge of coal severance taxes and project revenues.
- (9) The U.S. Highway 93 GARVEES (Grant Anticipation Revenue Vehicles) Bonds were issued for the purpose of improving a 44.8-mile stretch of U.S. Highway 93. Repayment of the bonds is secured by a pledge of certain federal aid revenues.
- (10) Loans obtained from Farmers Home Administration for the purpose of acquiring an irrigation (pumping) system for water distribution in the vicinity of Sidney, Montana (Little Dry Project) and to rehabilitate the Petrolia Reservoir and Canal in the vicinity of Winnett, Montana (Petrolia Project). A portion of the revenues generated by the facilities is pledged for repayment of the loans. In the fiscal year 2004 CAFR, the Little Dry Project Loan was incorrectly listed as a special revenue bond and the Petrolia Project Loan was incorrectly excluded from the long-term debt reported.
- (11) U.S. Bureau of Reclamation loan to Montana Department of Natural Resources & Conservation. The outstanding balance includes \$215,850 of interest owed.
- (12) Northern Cheyenne Tribe loan to the Montana Department of Natural Resources & Conservation. The loan will not accrue interest and will be repaid over 39 years. Loan repayment is secured by the issuance of a coal severance tax bond to the tribe.
- (13) Economic Development Bonds & Municipal Finance Consolidation Act Bonds – This program is directed by the Board of Investments, which is attached to the Department of Commerce for administrative purposes. The program assists Montana's small businesses and local governments in obtaining low-cost financing.
- (14) These bonds were issued to obtain funds for the Board of Investments, State of Montana, to purchase the refunding bonds of participating Irrigation Districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans. The Irrigation Bonds, and the interest thereon, are payable solely from the collection of a special tax or assessment, which is a lien against real property in the Irrigation District. The Irrigation Bonds are limited obligations of the Board of Investments, due to an irrevocable pledge to lend money for deposit by the trustee of the Irrigation District Pooled Loan Program Reserve Account E in an amount equal to any deficiencies therein, on any payment date. The indenture does not permit the issuance of additional bonds.
- (15) The Conservation Reserve Enhancement Program is funded by the Montana Trust Funds Bond Pool.

D. Debt Service Requirements

Primary government debt service requirements at June 30, 2007, were as follows (in thousands):

Governmental Activities

Year Ended June 30	General Obligation Bonds		Special Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 20,220	\$ 8,517	\$ 10,500	\$ 8,181	\$ 345	\$ 45
2009	16,330	7,729	11,370	7,696	347	44
2010	16,895	7,090	11,120	7,195	349	43
2011	14,820	6,369	11,675	6,692	351	42
2012	15,090	5,783	12,210	6,149	352	41
2013-2017	74,170	19,489	66,845	21,757	1,819	187
2018-2022	37,950	6,369	46,940	5,124	1,911	153
2023-2027	12,540	1,254	420	17	2,018	112
2028-2032	-	-	-	-	2,157	60
2033-2037	-	-	-	-	1,816	7
2038-2042	-	-	-	-	290	-
Total	\$208,015	\$62,600	\$171,080	\$62,811	\$11,755	\$734

Business-type Activities

Year Ended June 30	Economic Development Bonds		MUS Workers Compensation Bonds	
	Principal	Interest	Principal	Interest
2008	\$ 662	\$181	\$430	\$12
2009	486	136	-	-
2010	331	103	-	-
2011	290	80	-	-
2012	222	60	-	-
2013-2016	686	96	-	-
Total	\$2,677	\$656	\$430	\$12

Debt service requirements of discretely presented component units at June 30, 2007, were as follows (in thousands):

Year Ended June 30	Housing Authority		Montana State University		University of Montana	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 11,735	\$ 45,101	\$ 3,788	\$ 6,040	\$ 6,028	\$ 7,075
2009	14,675	44,409	3,579	6,165	5,652	6,887
2010	14,960	43,795	3,914	6,151	5,790	6,667
2011	15,605	43,141	3,796	6,181	5,619	6,430
2012	16,185	42,441	4,028	6,089	5,852	6,216
2013-2017	100,433	199,704	30,805	18,953	33,164	26,830
2018-2022	129,185	172,556	36,784	11,937	41,830	17,784
2023-2027	176,260	134,783	13,235	6,102	34,000	6,174
2028-2032	212,470	84,743	11,790	3,522	9,465	1,352
2033-2037	177,965	31,781	10,025	788	1,095	51
2038-2042	33,505	3,814	-	-	-	-
2043-2047	3,225	145	-	-	-	-
Total	\$906,203	\$846,413	\$121,744	\$71,928	\$148,495	\$85,466

E. Summary of Changes in Long-term Liabilities Payable

Primary government long-term liability activity for the year ended June 30, 2007, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Governmental activities						
Bonds/notes payable						
General obligation bonds	\$230,065	\$ 16,740	\$ 38,790	\$208,015	\$21,273	\$186,742
Special revenue bonds	181,770	-	10,690	171,080	11,085	159,995
Notes payable	12,099	-	344	11,755	345	11,410
	423,934	16,740	49,824	390,850	32,073	358,147
Deferred amount on refunding	(5,709)	1,000	131	(4,840)	-	(4,840)
Unamortized discount	(145)	12	-	(133)	-	(133)
Unamortized premium	10,458	1,025	1,393	10,090	-	10,090
Total bonds/notes payable	428,538	18,777	51,348	395,967	32,073	363,264
Other liabilities						
Lease/installment purchase payable	2,459	57	1,459	1,057	423	634
Compensated absences payable (1)	79,125	50,913	45,907	84,131	45,897	38,234
Early retirement benefits payable (1)	49	31	32	48	5	43
Arbitrage rebate tax payable (1)	74	381	92	363	96	267
Estimated insurance claims (1)	28,733	95,827	96,931	27,629	14,127	13,502
Total other liabilities	110,440	147,209	144,421	113,228	60,548	52,680
Total governmental activities						
Long-term liabilities	\$538,978	\$165,986	\$195,769	\$509,195	\$93,251	\$415,944
Business-type activities						
Bonds/notes payable						
Economic Development Bonds	\$ 3,086	\$ -	\$ 409	\$ 2,677	\$ 662	\$ 2,015
MUS Workers Compensation	850	-	420	430	430	-
Total bonds/notes payable	3,936	-	829	3,107	1,092	2,015
Other liabilities						
Compensated absences payable	1,229	780	710	1,299	703	596
Arbitrage rebate tax payable	129	89	159	59	35	24
Estimated insurance claims	13,859	58,075	56,456	15,478	7,901	7,577
Total other liabilities	15,217	58,944	57,325	16,836	8,639	8,197
Total business-type activities						
Long-term liabilities	\$ 19,153	\$ 58,944	\$ 58,154	\$ 19,943	\$ 9,731	\$ 10,212

- (1) The compensated absences liability attributable to the governmental activities will be liquidated by several of the governmental and internal service funds. The early retirement benefits payable will be liquidated by the general, state special revenue, and federal special revenue funds. The arbitrage rebate tax payable will be liquidated by debt service funds. The Employee Group Benefits and Administration Insurance internal service funds will liquidate the estimated insurance claims liability.

Long-term liability activity of discretely presented component units for the year ended June 30, 2007, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Discretely presented component units						
Bonds/notes payable						
Housing Authority	\$ 803,135	\$247,803	\$136,084	\$ 914,854	\$ 11,735	\$ 903,119
Montana State University (MSU)	129,237	15,109	16,860	127,486	4,994	122,492
University of Montana (UM)	151,599	268	5,815	146,052	6,028	140,024
Total bonds/notes payable	1,083,971	263,180	158,759	1,188,392	22,757	1,165,635
Other liabilities						
Lease/installment purch pay	696	71	277	490	179	311
Compensated absences pay	46,950	23,525	21,649	48,826	22,704	26,122
Arbitrage rebate tax payable	1,141	276	220	1,197	590	607
Estimated insurance claims	664,424	232,743	142,895	754,272	148,341	605,931
Due to federal government	31,035	359	2	31,392	-	31,392
Other	2,095	-	-	2,095	-	2,095
Total other liabilities	746,341	256,974	165,043	838,272	171,814	666,458
	\$1,830,312	\$520,154	\$323,802	\$2,026,664	\$194,571	\$1,832,093
Long-term liabilities of MSU component units					533	184
Long-term liabilities of UM component units					610	236
Total discretely presented component units						
Long-term liabilities					\$195,714	\$1,832,513

F. Refunded and Early Retired Debt

Primary Government

Pre-payments

During fiscal year 2007, the Department of Natural Resources and Conservation (DNRC) used current available resources to make the following pre-payments on general obligation bonds: \$300,000 of Series 1997A Renewable Resource Program, \$665,000 of Series GO 1999C, and \$189,000 of Series GO 2000A.

Defeased Debt Outstanding

The State of Montana has defeased certain general obligation and special revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2007, \$71,185,000 of bonds outstanding were considered defeased.

Discretely Presented Component Units

Current Refundings

The Housing Authority (HA), on September 20, 2006, issued Series 2006C Bonds in the amount of \$70,805,000. Of the proceeds, \$10,805,000 was used as an advance refunding of the Series 1996A Bonds which were refunded on December 1, 2006. On March 7, 2007, the Housing Authority issued Series 2007A Bonds in the amount of \$86,015,000. Of the proceeds,

\$36,015,000 was used as an advanced refunding of the Series 1997A Bonds which were refunded on June 1, 2007. The refunding of the Series 1996A and 1997A Bonds resulted in an economic gain of \$7,750,063 and a difference in cash flow requirements of \$4,522,708.

Defeased Debt Outstanding

Montana State University and the University of Montana have defeased certain bond issues by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2007, \$2,520,000 and \$51,481,125 of bonds outstanding were considered defeased for Montana State University and the University of Montana, respectively.

G. No-Commitment Debt

Information is presented below for financing authorities participating in debt issues. The State has no obligation for this debt. Accordingly, these bonds and notes are not reflected in the accompanying financial statements.

Primary Government

Montana Board of Investments (BOI)

Under the Economic Development Act, the BOI is authorized to issue industrial revenue bonds to finance

projects for qualifying borrowers. Assets and revenues of the borrower are pledged to repay the bonds. At June 30, 2007, industrial revenue bonds outstanding aggregated \$195.5 million.

The BOI is also authorized to issue Qualified Zone Academy Bonds (QZAB) under the Municipal Finance Consolidation Act. The revenues, and in some cases, the taxing power of the borrower are pledged to repay the bonds. At June 30, 2007, QZAB debt outstanding aggregated \$7.2 million.

Neither the industrial revenue bonds, nor the QZAB debt issued by the BOI constitutes a debt, liability, obligation, or pledge of faith and credit of the State of Montana.

Beginning Farm Loan Program

The Montana Department of Agriculture is authorized to request issuance of bonds by the BOI to finance projects for beginning farmers within the State, if it appears, after a properly noticed public hearing, that the project is in the public interest of the State. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State of Montana. The amount issued and outstanding at June 30, 2007, was as follows: Hershberger Project – issued \$129,412, outstanding \$109,601; Young Project – issued \$223,300, outstanding \$203,567.

Discretely Presented Component Units

Facility Finance Authority (FFA)

The FFA is authorized to issue bonds and notes to finance projects for qualifying health care and other community-based service providers. The revenue bonds are payable solely from loan repayments to be made by eligible facilities pursuant to loan agreements, and further, from the funds created by the indentures and investment earnings thereon. The notes are payable solely from loan repayments pursuant to loan agreements. The revenue bonds and notes payable issued by the FFA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2007, revenue bonds outstanding aggregated \$851 million, and notes payable outstanding aggregated \$14 million.

The BOI and the FFA have entered into a capital reserve account agreement for certain bond issues. See Note 16.C. (miscellaneous contingencies) for more information.

Housing Authority (HA)

The HA is authorized to issue bonds and make mortgage loans in order to finance housing which will provide decent, safe, and sanitary housing for persons and families of lower income in the State of Montana. The bonds are special, limited obligations, payable solely from pledged revenues and assets, not general obligations of the HA. The bonds issued by the HA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2007, bonds outstanding aggregated \$2,344,996.

NOTE 12. INTERFUND BALANCES AND TRANSFERS**A. Balances Due From/To Other Funds**

Balances due from/to other funds arise when there is a time lag between the dates that reimbursable expenditures and interfund services provided/used are recorded in the accounting system, and the dates on which payments are made. Balances also arise when there is a time lag between the dates that transfers between funds are recorded, and the dates on which payments are made. Balances due from/to other funds also includes the current portion of balances related to amounts loaned by the Economic Development Bonds Fund to other funds, under the Board of Investments INTERCAP loan program. Balances due from/to other funds are expected to be repaid within one year from the date of the financial statements.

Balances due from/to other funds at June 30, 2007, consisted of the following (in thousands):

	Due To Other Funds					
	Coal Severance Tax Permanent	Economic Development Bonds	Federal Special Revenue	General Fund	Internal Service Funds	Land Grant Permanent
Due From Other Funds						
Economic Development Bonds	\$ -	\$ -	\$ -	\$ -	\$2,608	\$ -
Federal Special Revenue	-	-	-	56	3	-
General Fund	6,678	1	429	-	212	-
Internal Service Funds	24	4	1,415	2,199	369	-
Land Grant Permanent	-	-	-	-	-	-
Nonmajor Enterprise Funds	-	-	9	323	10	-
Nonmajor Governmental Funds	-	-	5	-	-	-
State Special Revenue	147	-	858	6,434	24	7,031
Total	\$6,849	\$5	\$2,716	\$9,012	\$3,226	\$7,031

	Nonmajor Enterprise Funds	Nonmajor Governmental Funds	State Special Revenue	Unemployment Insurance	Total
Due From Other Funds					
(continued)					
Economic Development Bonds	\$ -	\$ -	\$ 2,463	\$ -	\$ 5,071
Federal Special Revenue	5	4	425	110	603
General Fund	14,042	23	49,801	-	71,186
Internal Service Funds	127	8	1,699	-	5,845
Land Grant Permanent	-	-	431	-	431
Nonmajor Enterprise Funds	3	-	26	-	371
Nonmajor Governmental Funds	-	-	36	-	41
State Special Revenue	106	2,296	-	-	16,896
Total	\$14,283	\$2,331	\$54,881	\$110	\$100,444

B. Interfund Loans Receivable/Payable

Montana statutes include a provision for interfund loans when the expenditure of an appropriation is necessary and the cash balance in the account from which the appropriation was made is insufficient to pay the expenditure. Interfund loans receivable/payable are expected to be repaid within one year from the date of the financial statements.

Interfund loans receivable/payable at June 30, 2007, consisted of the following (in thousands):

	Interfund Loans Payable					Total
	Federal Special Revenue	Internal Service Funds	Nonmajor Enterprise Funds	Nonmajor Governmental Funds	State Special Revenue	
Interfund Loans Receivable						
Federal Special Revenue	\$ -	\$ 577	\$ -	\$ -	\$ 147	\$ 724
General Fund	18,528	170	-	42	14,977	33,717
Internal Service Funds	44	-	225	-	-	269
State Special Revenue	32,259	900	82	-	-	33,241
Total	\$50,831	\$1,647	\$307	\$42	\$15,124	\$67,951

C. Advances To/From Other Funds

Advances to/from other funds represents the portion of interfund loans that are not expected to be repaid within one year from the date of the financial statements. Advances to/from other funds also includes the noncurrent portion of balances related to amounts loaned by the Economic Development Bonds Fund to other funds, under the Board of Investments INTERCAP loan program.

Advances to/from other funds at June 30, 2007, consisted of the following (in thousands):

	Advances from Other Funds					Total
	Federal Special Revenue	Internal Service Funds	Nonmajor Governmental Funds	Pension (And Other Employee Benefit) Trust Funds	State Special Revenue	
Advances to Other Funds						
Coal Severance Tax Permanent	\$ -	\$ -	\$ -	\$-	\$14,326	\$14,326
Economic Development Bonds	-	4,512	-	-	13,534	18,046
General Fund	650	3,300	-	-	-	3,950
Nonmajor Enterprise Funds	75	-	-	-	-	75
Nonmajor Governmental Funds	-	-	-	-	2,916	2,916
State Special Revenue	1,168	-	14,271	-	-	15,439
Total	\$1,893	\$7,812	\$14,271	\$-	\$30,776	\$54,752

Additional detail for certain advance balances at June 30, 2007, follows (in thousands):

Advances from the Economic Development Bonds Fund under the INTERCAP Loan Program		Advances from the Coal Severance Tax Permanent Fund	
Department	Balance	Department	Balance
Environmental Quality	\$ 489	Justice	\$ 2,752
Justice	13,045	Natural Resources and Conservation	11,574
Transportation	4,512	Total	\$14,326
Total	\$18,046		

D. Interfund Transfers

Routine transfers between funds are recorded to (1) transfer revenues from the fund legally required to receive the revenue to the fund authorized to expend the revenue, (2) transfer resources from the General Fund and special revenue funds to debt service funds to support principal and interest payments, (3) transfer resources from enterprise funds to the General Fund to finance general government expenditures, and (4) provide operating subsidies.

Interfund transfers for the year ended June 30, 2007, consisted of the following (in thousands):

	Transfers In					
	Coal Severance Tax Permanent	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Enterprise Funds	Nonmajor Governmental Funds
Transfers Out						
Coal Severance Tax Permanent	\$ -	\$ -	\$32,335	\$ -	\$ -	\$ -
Economic Development Bonds	-	-	-	900	-	-
Federal Special Revenue	-	-	-	9	-	12,884
General Fund	-	-	-	2,061	50	37,657
Internal Service Funds	-	-	-	417	-	-
Land Grant Permanent	-	-	-	-	-	998
Nonmajor Enterprise Funds	-	-	34,352	-	-	-
Nonmajor Governmental Funds	954	-	-	500	-	2,739
State Special Revenue	1,505	1,189	6,153	339	29	20,499
Unemployment Insurance	-	1,066	-	-	-	-
Total	\$2,459	\$2,255	\$72,840	\$4,226	\$79	\$74,777

	State Special Revenue	Total
Transfers Out (continued)		
Coal Severance Tax Permanent	\$ 9,102	\$ 41,437
Economic Development Bonds	-	900
Federal Special Revenue	12,161	25,054
General Fund	31,890	71,658
Internal Service Funds	2	419
Land Grant Permanent	80,094	81,092
Nonmajor Enterprise Funds	4,840	39,192
Nonmajor Governmental Funds	16,447	20,640
State Special Revenue	-	29,714
Unemployment Insurance	-	1,066
Total	\$154,536	\$311,172

NOTE 13. FUND DEFICITS

The following funds have a deficit fund balance/net assets position at June 30, 2007, (in thousands):

Fund Type/Fund	Deficit
<u>Enterprise funds</u>	
Subsequent Injury	\$(2,156)
Surplus Property	\$ (18)
<u>Internal service funds</u>	
Justice Legal Services	\$ (98)

NOTE 14. RESERVED FUND BALANCES

Special Revenue Funds – The State and Federal Special Revenue Funds reserved fund balances are for the following purposes (in thousands):

Fund Type/Purpose	Amount
<u>State Special Revenue funds</u>	
General Government	\$ 37,736
Public Safety/Corrections	193,966
Transportation	73,514
Health/Social Services	64,719
Education/Cultural	6,385
Resource/Recreation/Environment	325,579
Economic Development/Assistance	47,285
Total state special revenue funds	<u>\$749,184</u>
<u>Federal Special Revenue funds</u>	
General Government	\$ 6,124
Public Safety/Corrections	938
Health/Social Services	3,718
Education/Cultural	15,863
Resource/Recreation/Environment	1,248
Economic Development/Assistance	237
Total federal special revenue funds	<u>\$28,128</u>

Coal Severance Tax Permanent Trust Fund – The reserve for trust principal is comprised of the following (in thousands):

Purpose	Amount
Big Sky Economic Development Fund	\$ 28,034
Coal Severance Tax Bond Fund	9,445
Treasure State Endowment Fund	158,405
Treasure State Endowment Regional Water System Fund	35,850
Coal Severance Tax Permanent Fund	509,108
Coal Severance Tax Income Fund	437
Total	<u>\$741,279</u>

NOTE 15. RELATED PARTY TRANSACTIONS

The Montana Board of Regents (Regents), an agency within the State, is the guarantor of the loans owned by the Montana Higher Education Student Assistance Corporation (MHESAC), a private non-profit corporation and by the Student Assistance Foundation of Montana (SAF) and subsidiaries. The Regents and MHESAC have three common board members. Approximately 78.04% of the Regents' outstanding loan volume, \$1,391,527,796, is held by either MHESAC or SAF and subsidiaries. During fiscal year 2000, MHESAC undertook a reorganization under which its operating staff and assets were transferred to the Student Assistance Foundation of Montana, and MHESAC entered into agreements with SAF to provide management and loan servicing to MHESAC. The Board of Regents and SAF have three common board members. The Office of Commissioner of Higher Education (OCHE) paid SAF during fiscal year 2007 for its share of various costs, such as personnel costs for employees of SAF who performed services that were of direct benefit to the State, equipment leases, computer maintenance costs, utilities, and other shared operating expenses. The total amount of these expenses for fiscal year 2007 amounted to \$487,952. Additionally, the Montana Guaranteed Student Loan Program (MGSLP) paid \$126,754 to SAF for leased space in the building MSGLP occupies, with SAF, at 2500 Broadway, Helena, MT 59601.

A staff member in the Department of Administration, Personnel Division, serves as a Director of the Montana Association of Health Care Purchasers for no remuneration. The Department pays this association \$1 per member per year to maintain its membership as well as a monthly fee of \$3 on behalf of each employee who participates in a managed care plan. These fees are payment for data analysis, actuarial analysis, and consulting services performed by association staff on behalf of member employers.

NOTE 16. CONTINGENCIES

A. Litigation

The State is party to legal proceedings, which normally occur in government operations. The legal proceedings are not, in the opinion of the State's legal counsel and the Department of Administration, likely to have a material adverse impact on the State's financial position, except where listed below.

In State of Montana v. Philip Morris, Inc., No. CDV 97-306 (Mont. 1st Jud. Dist. Lewis & Clark County), the State of Montana filed various claims against six tobacco manufacturers seeking recovery of an unspecified amount of damages, penalties, and attorney's fees. The lawsuit was resolved eventually through two settlements. The State first settled its claims against one of the manufacturers, Liggett & Meyers, Inc., for \$1 million to be paid over a 20-year period. It next settled its claims against the remaining manufacturers in November 1998 for a base settlement amount of \$832 million payable over 26 years. The base amount was augmented by \$90 million in 1999, with the additional amount to be paid in equal installments over a 10-year period beginning in 2007.

The settlement provides that the cigarette manufacturers may offset against their payment in any year certain amounts of money if it is found that the original settling manufacturers (known as OPMs) have lost more than 2% of their market share to non-settling manufacturers (known as NPMs), and that the disadvantages imposed by the settlement were a "significant factor" in the market share loss. The settlement further provides that the offset, known as the "NPM adjustment" may not be taken against the payments to any state that has enacted a "qualifying statute" and diligently enforced the statute during the year in question. Montana enacted such a qualifying statute in 1999, Title 16, Chapter 11, Parts 401 – 404, MCA.

In March 2006, a determination was made pursuant to the settlement that the OPMs had lost sufficient market share in 2003 to trigger an NPM adjustment analysis, and that disadvantages caused by the settlement were a significant factor in the market share loss. The State has filed a motion in the lawsuit seeking a declaration that it diligently enforced its qualifying statute during 2003. The OPMs moved to compel arbitration of the question, and the court has granted that motion. The State has appealed the order to the Montana Supreme Court, where the appeal remains pending. In the opinion of the counsel, good factual arguments exist to show that the State diligently enforced its statute during the year in question. However, legal and procedural uncertainties exist that make an adverse determination reasonably possible. An adverse determination on the diligent enforcement issue could result in the loss of some or all

of the State's 2003 payment, which would be recouped through an offset of payments due in future years. At present, the NPM case involves roughly \$1.8 million that was withheld from the April 2006 payment to the State. The PMs have asserted claims for NPM adjustments for later years as well. The outcome of these claims are also uncertain.

This settlement has also formed the basis for other lawsuits against the State. On July 1, 2002, a group of cigarette manufacturers and marketers filed suit against the Attorneys General of 31 states, including Montana, in the United States District Court for the Southern District of New York, seeking a declaration that the provisions of Title 16, Chapter 11, Part 4, MCA, violate several provisions of the United States Constitution, and seeking injunctive relief against the enforcement of the statutes. Grand River Enterprises Six Nations, Ltd., v. Pryor et al., Docket No. 02 CV 5068 (U.S. Dist. Ct., S.D.N.Y.). An adverse outcome could threaten the ability of the State to continue to receive payments from the tobacco companies under the settlement of the Mazurek case discussed above. The potential loss to the Treasury could amount to \$30-35 million annually. The federal district court had dismissed the complaint, but the United States Court of Appeals for the Second Circuit has reversed the trial court and remanded one of the claims for further proceedings. The United States Supreme Court has denied review, and the case has been remanded for further proceedings. In the opinion of counsel, good defenses exist to the claims, and an adverse result impairing or preventing receipt of the State's payment is possible, but unlikely.

Beginning in February 2001, the Montana Department of Fish, Wildlife and Parks became the defendant in a number of lawsuits challenging the constitutionality and enforcement of Initiative Measure 143, which banned the issuance of new licenses for game farms in Montana, prohibiting the transfer of existing licenses, and prohibited game farm licenses from allowing the shooting of game farm animals on a game farm for a fee or other remuneration. Most of these cases sought declaratory and injunctive relief, but several cases are now pending in which game farmers have alleged that I-143 takes their property without just compensation in violation of the state and federal constitutions, and in which they seek damages from the State for the alleged uncompensated taking. The State believes valid defenses exist to the claims asserted in these cases. One of the cases, Spoklie v. State of Montana, U.S. District Ct., D. Mont. Docket No. CV-02-102-GF-SHE, has been dismissed in its entirety, and the dismissal has now been affirmed by the Ninth Circuit of Appeals. In a second case, Kafka v. Montana Department of Fish Wildlife, and Parks, Hill County Docket No. DV-02-059, the state district court has denied the taking claim

and entered final judgment in favor of the State. In Buhlmann et al. v. State of Montana et al., Lewis and Clark Docket No. DV-2002-555, the court has entered judgment in favor of the State on the taking claims, and appeal has been taken to the Montana Supreme Court. Both the Kafka and Buhlman decisions are on appeal before the Montana Supreme Court. Royal Tine Ranch v. State, Flathead County Docket No. DV-02-606C, is submitted on cross-motions for summary judgment. Wallace v. State of Montana, Ravalli County Docket No. 02-254, has been dismissed without prejudice, and the Bowman v. Montana Fish, Wildlife and Parks, Fergus County Docket No. DV-2002-02, case has been dismissed without prejudice for failure to prosecute. Spoklie v. Montana Department of Fish, Wildlife and Parks, Sheridan County Docket No. 11013, Mesaros v. Department of Fish, Wildlife and Parks, Cascade County Docket No. BDV 03-0119, are in varying stages of pretrial preparation. Based on the courts' treatment of the cases thus far, in the opinion of counsel, good defenses exist to all of these claims, although adverse decisions remain possible. The amount of loss cannot be estimated at this time.

In Montana Association for Disability Services, Inc., et al., v. Schweitzer, et al., filed in Montana First Judicial District Court, Lewis and Clark County, Cause No. BDV 2002 558, (MAIDS) a class-action lawsuit was filed on the part of individually-named developmentally disabled persons and the Montana Association for Independent Disability Services, Inc., a consortium of community-based private facilities serving the developmentally disabled population. The plaintiffs allege that the named defendants, Brian Schweitzer, Joan Miles, and Joe Mathews, in their official capacities, "configure" the wage and benefit structure of employees at community-based facilities serving developmentally disabled persons at a level that is lower than the level established at Eastmont and MDC. It is alleged this causes employees to leave the community-based facilities at a higher rate, thereby jeopardizing the quality and quantity of the services provided in the community-based facilities. This allegedly has the effect of precluding individuals with developmental disabilities from living in the community in the least restrictive, most independent circumstances possible. The wage configuration by the defendants allegedly constitutes a violation of statutes concerning the objective of placing developmentally disabled individuals in independent living situations, the establishment of uniform reimbursement rates equivalent to Medicaid covered services, the right to enjoy life, liberty, safety, health, and happiness (Article II, Section 3, Montana Constitution), to dignity and equal protection (Article II, Section 4, Montana Constitution), and of the requirement of Article XII, Section 3 that the State and Legislature provide assistance to those in need. The plaintiffs seek declaratory and injunctive relief concerning the proper establishment of reimbursement rates, attorney's fees,

and costs. The court entered an order on March 30, 2004, granting the Motion for Class Certification. The parties have entered into a Class Action Settlement Agreement. Signatures of the named plaintiffs are being obtained, after which the settlement agreement will be presented to the court for its approval. It is anticipated that a court hearing will be necessary to allow input into the decision whether the settlement agreement is fair and acceptable to the class plaintiffs. Under the terms of the settlement, there will be no monetary damages and no attorney fees will be awarded.

In Terry Blanton v. DPHHS, filed in Montana Twentieth Judicial District Court, Lake County, Cause No. DV-06-37, a class-action lawsuit was filed on the part of plaintiffs who seek to "force DPHHS to obey federal Medicaid and anti-lien laws and the state 'made whole' doctrine." The lawsuit seeks payment from DPHHS of money allegedly wrongfully collected from third-party settlements or recoveries of Medicaid recipients. The lawsuit also seeks interest, costs, attorney fees, and declaratory and injunctive relief. On September 5, 2007, the court issued an order granting class certification. There is currently no trial date and no pretrial schedule. The state defendants do not feel that the material facts in the case have been sufficiently developed to permit a determination of the likelihood of success on the merits. In addition, the fiscal impact on the State, should the plaintiffs prevail, and the amount of any potential award of attorney fees and costs, is also not determinable at this time.

Lori Brenneman v. Gallatin County, Ron Carlstrom, Todd Kessner, Cynde Hertzog, and Does 1-10, Eighteenth Judicial District, Gallatin County, Cause No. DV 05-358, involves the plaintiff's claims of disability discrimination, gender discrimination, wrongful discharge, and retaliation. The State is providing a defense for Carlstrom and Kessner. The plaintiff seeks compensatory and exemplary damages, costs, and attorney fees. The case is in the discovery phase. The state defendants do not feel that the material facts in the case have been sufficiently developed to permit a determination of the likelihood of success on the merits. In addition, the fiscal impact on the State, should the plaintiff prevail, and the amount of any potential award of attorney fees and costs, is also not determinable at this time.

In Stavenjord v. State Compensation Insurance Fund, the first decision was issued by the Workers Compensation Court on May 22, 2001. It addressed the issue of whether the failure of the Occupational Disease Act (ODA) to provide PPD (permanent partial disability) benefits equivalent to the benefits provided in the Montana WCA (workers compensation act) violates the claimant's right to equal protection of the law. Relying on the Henry case (previous case from the Supreme Court finding that vocational rehabilitation benefits must also be paid under the ODA), the court

held that Title 39, Chapter 72, Part 405, MCA, is unconstitutional as applied to Debra Stavenjord. "Where PPD benefits calculated pursuant to the WCA are greater than the benefits available to a claimant under the ODA, constitutional equal protection guarantees require that benefits be computed and paid in accordance with the WCA. The claimant in this case is entitled to \$27,027 under the WCA, versus \$10,000 under the ODA." The Montana Supreme Court affirmed the case on April 1, 2003. On August 27, 2004, the Workers Compensation Court held that Stavenjord is retroactive to June 3, 1999 (the date of the Henry decision). The court held that a common fund is created for claimants reaching Maximum Medical Improvement on or after June 3, 1999. The decision was appealed to the Montana Supreme Court.

The Montana Supreme Court issued its decision on October 6, 2006, and modified the lower court decision holding that a common fund was not created. The court also held that the decision applies retroactively to claims from July 1, 1987. The cost to retroactively pay benefits for claims to July 1, 1987 is estimated at \$9.5 million for the Montana State Fund (New Fund, for claims on or after July 1, 1990). The impact on the Old Fund liability for claims that occurred from July 1, 1987 to June 30, 1990 is estimated at \$2 million. The case is currently pending before the Workers Compensation Court on matters relating to identification and notification of claimants. Once file reviews and payments are completed, the actual financial impact, as compared to the estimated financial impact, could possibly increase or decrease. The estimated liability is recorded in loss reserves.

In Reesor v. Montana State Fund (MSF), 2004 MT 370, Reesor was receiving Social Security retirement benefits at the time he suffered an industrial accident. He received an impairment award, but was denied other permanent partial disability (PPD) benefits pursuant to Title 39, Chapter 71, Part 710, MCA, which provides that persons who are receiving Social Security retirement benefits are ineligible for PPD benefits other than an impairment award. Reesor challenged the constitutionality of Title 39, Chapter 71, Part 710, MCA, on equal protection grounds and sought full PPD benefits. On July 26, 2003, the Workers Compensation Court found Title 39, Chapter 71, Part 710, MCA, to be constitutional. Reesor appealed to the Montana Supreme Court, where on December 22, 2004, the court held that limiting Reesor's permanent partial benefit pursuant to Title 39, Chapter 71, Part 710, MCA, violated the Equal Protection Clause of the Montana Constitution. Pending before the Workers Compensation Court are the retroactive application of the decision and common fund status. MSF has estimated the cost of benefits associated with a retroactive application of Reesor. MSF's estimate did not include claims with entitlement dates occurring on

or after July 1, 1991 through June 30, 1995 because the Russette decision appears to make Reesor inapplicable during that timeframe. Excluding the Russette timeframe, for claims arising on or after July 1, 1990 through December 22, 2004, the increase in benefit costs for MSF is estimated at \$2 million. For claims arising on or after July 1, 1987 through June 30, 1990, the retroactive application of Reesor will result in an estimated benefit cost increase of \$1 million for the Old Fund. The potential for the litigation to create a liability for MSF and the State of Montana is reasonably possible. Actual cost impact is unknown.

Satterlee v. Lumberman's Mutual Casualty Company et al., WCC No. 2003-0840, was filed before the Workers Compensation Court on July 18, 2003. The Satterlee vs. Lumberman's Mutual Casualty Company case challenges the constitutionality of State statute, (Title 39, Chapter 71, Part 710, MCA) passed by the Montana Legislature in 1981. That statute authorizes termination of permanent total disability benefits and rehabilitation benefits when a claimant receives or becomes eligible to receive full Social Security retirement benefits or an alternative to that plan. Should the statute be found to be unconstitutional as applied to permanent total benefits, Satterlee et al. request payment of lifetime permanent total disability benefits. In addition, the petition requests certification of this case as a class action or the establishment of a common fund for similarly situated claimants. Petitioners filed a motion and brief for summary judgment on the constitutional issue. The Workers Compensation Court provided an opportunity for any workers compensation insurer to intervene until June 6, 2005. The Workers Compensation Court rendered its decision on December 12, 2005, holding that Title 39, Chapter 71, Part 710, MCA, is constitutional as applied to PTD benefits. This case was appealed to the Supreme Court on December 1, 2006. Should Title 39, Chapter 71, Part 710, MCA, ultimately be held to be unconstitutional as applied to permanent total disability benefits by the Workers Compensation Court and/or the Montana Supreme Court, and also found to apply retroactively, the cost impact has been estimated for non-settled claims arising on or after July 1, 1990 through December 22, 2004 at \$135 to \$186 million. The estimated cost of retroactively applying the decision to the Old Fund, for non-settled permanent total disability claims that occurred before July 1, 1990, is \$93 to \$116 million. The potential for liability for MSF and the State of Montana is reasonably possible. Actual cost impact is unknown.

On December 11, 2007, Montana's Supreme Court issued an order dismissing Satterlee et al. without prejudice, stating "Satterlee appeals an order that falls short of a final judgment, and therefore requires a Rule 54(b) certification. The WCC failed to comply with Rule 54(b); thus, we dismiss Satterlee's appeal without prejudice." It is anticipated that Satterlee et al. will

continue to pursue the matter before the Workers Compensation Court.

Working Rx, Inc., v. Montana State Fund, Ed Heinrich, (Chairman of the Board of Directors of the Montana State Fund), Laurence Hubbard (President of the Montana State Fund), National Medical Health Card Systems, Inc. and John Does 1-20. This complaint was served in September, 2006, but has since been dismissed to provide for the presentation of the claim to the Department of Administration as required in Title 2, Chapter 9, Part 301, MCA. Whether Montana State Fund has any responsibility to Working Rx for payment of pharmacy claims is the basis of the claim. Montana State Fund does not have sufficient information to determine potential liability or cost impact.

B. Federal Contingencies

USDA Commodities – In fiscal year 2007, the State distributed \$5,931,264 in commodities. The value of the

Gain Contingencies – Certain natural resource and corporation tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 2007, the following assessments (by fund type) were outstanding (in thousands):

Taxes	General	State Special Revenue	Permanent Trust	Debt Service	Capital Projects
Coal severance	\$4,507	\$1,406	\$8,730	\$160	\$2,019
Oil & gas	2,031	220	-	-	-
Corporation tax	3,433	-	-	-	-
Total	\$ 9,971	\$1,626	\$8,730	\$160	\$2,019

Collectibility of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements. Interest related to Corporation Tax Assessments is distributed to the General Fund.

Loss Contingencies – Certain corporations have requested refunds that are not reported on the State's financial statements as of June 30, 2007. The corporations have appealed the decision. As of June 30, 2007, these include \$8,620,132 of General Fund corporation tax refunds.

Certain companies have protested property taxes that have been included as revenue on the State's financial statements as of June 30, 2007. As of June 30, 2007, these include \$6,385,735 of protested property taxes recorded in the General Fund and \$6,385,735 recorded in the State Special Revenue Fund.

NOTE 17. SUBSEQUENT EVENTS

Bond/Loan Issues

On August 9, 2007, the Housing Authority issued \$50,600,000 of Single Family Mortgage Bonds Series 2007 C. The bonds will mature June 1, 2009 through

commodities stored in the State's warehouses was 1,967,797 at June 30, 2007, for which the State is liable in the event of loss.

C. Miscellaneous Contingencies

Loan Guarantees – As of June 30, 2007, the Board of Investments (BOI) had provided loan guarantees from the Coal Severance Tax Permanent Trust Fund to the Economic Development Bonds Enterprise Fund and the Facility Finance Authority, (a component unit of the State of Montana), totaling \$186,630,336. The BOI's exposure to bond issues of the Economic Development Bonds Enterprise Fund was \$98,850,000, while exposure to bond issues, surety bonds and designated loans of the Facility Finance Authority was \$87,780,336.

December 1, 2038, with interest rates from 3.875% to 5.75%. Bond proceeds will be used to purchase single family mortgage loans for the Homeownership Program.

On September 12, 2007, the Housing Authority issued \$5,100,000 of Multifamily Housing Revenue Bonds Series 2007. Bond proceeds will be used to finance a loan to South Forty Partners, L.P., a Montana limited partnership, for the acquisition, rehabilitation, and equipping of the South Forty Apartments Project, a 101-unit affordable housing development located in Billings, Montana.

Both bond series are not debts of the State and the State is not liable for the bonds. Neither the State's faith or credit or taxing power is pledged to the payment of bond principal or interest.

On July 19, 2007, the State of Montana issued \$11,720,000 General Obligation Long-Range Building Program Bonds Series 2007D. This obligation was authorized by legislation, House Bill 540, in 2005.

NOTE 18. SPECIAL SESSION TAX RELIEF**Property Tax Relief**

The May 2007 (2009 Biennium) Special Session of the Legislature approved a tax relief program that allows qualified homeowners to request a refund of up to \$400 based on primary residence property tax payments made in tax years 2004, 2005, and 2006. These refunds must be requested by calendar year-end 2007. It is estimated that the payments to qualified homeowners will amount to \$99.8 million dollars from the General Fund by December 31, 2007. Taxes paid on these refunds should generate an estimated \$4 million dollars in additional income tax revenue in fiscal year 2008, for a net decrease in General Fund balance related to these refunds of \$95.8 million dollars. As of June 30 2007, these refunds did not represent a liability of the State, and will be reported in the State fiscal year 2008 financial statements.

In addition to the property tax refund, a tax credit was enacted by the Legislature during the May session that provides income tax credits to Montana homeowners who pay property taxes on a primary residence in tax year 2007. These tax credits are triggered by unadjusted General Fund revenues in excess of a threshold of \$1.802 billion, as certified by the Montana Department of Administration by August 31, 2008. The Montana Department of Administration certified unadjusted General Fund revenues of \$1.838 billion. The resulting tax credits during fiscal year 2008 should be an estimated \$36 million from the General Fund.

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REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2007
 (amounts expressed in thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Licenses/permits	\$ 139,826	\$ 139,826	\$ 132,900	\$ (6,926)
Taxes:				
Natural resource	105,102	105,102	116,663	11,561
Individual income	793,847	793,847	743,941	(49,906)
Corporate income	161,057	161,057	173,898	12,841
Property	192,084	192,084	190,982	(1,102)
Fuel	-	-	-	-
Other	214,228	214,228	220,369	6,141
Charges for services/fines/forfeits/settlements	33,144	33,144	30,127	(3,017)
Investment earnings	27,484	27,484	34,861	7,377
Sale of documents/merchandise/property	356	356	361	5
Rentals/leases/royalties	45	45	9	(36)
Contributions/premiums	-	-	-	-
Grants/contracts/donations	3,677	3,677	1,727	(1,950)
Federal	29,024	29,024	28,573	(451)
Federal indirect cost recoveries	111	111	74	(37)
Other revenues	-	-	-	-
Total revenues	1,699,985	1,699,985	1,674,485	(25,500)
EXPENDITURES				
Current:				
General government	249,470	251,506	244,681	6,825
Public safety/corrections	170,160	191,690	186,110	5,580
Transportation	269	299	294	5
Health/social services	316,898	325,001	319,872	5,129
Education/cultural	814,077	815,264	790,403	24,861
Resource/recreation/environment	41,477	61,822	57,634	4,188
Economic development/assistance	29,166	29,141	12,386	16,755
Debt service:				
Principal retirement	2,944	2,950	460	2,490
Interest/fiscal charges	53	53	53	-
Capital outlay	4,934	4,826	2,089	2,737
Total expenditures	1,629,448	1,682,552	1,613,982	68,570
Excess of revenue over (under) expenditures	70,537	17,433	60,503	43,070
OTHER FINANCING SOURCES (USES)				
Loans issued	-	-	-	-
Bonds issued	-	-	-	-
Insurance proceeds	308	308	1,199	891
General capital asset sale proceeds	76	76	49	(27)
Transfers in	69,016	69,016	68,531	(485)
Transfers out	(27,477)	(27,315)	(27,723)	(408)
Total other financing sources (uses)	41,923	42,085	42,056	(29)
Net change in fund balances (Budgetary basis)	112,460	59,518	102,559	43,041
RECONCILIATION OF BUDGETARY/GAAP REPORTING				
1. Securities lending income	-	-	2,220	2,220
2. Securities lending costs	-	-	(2,208)	(2,208)
3. Inception of lease/installment contract	-	-	13	13
4. Adjust expenditures for encumbrances	-	-	4,324	4,324
5. Adjustments for nonbudgeted activity	-	-	42,411	42,411
Net change in fund balances (GAAP basis)	112,460	59,518	149,319	89,801
Unreserved fund balances - July 1	408,580	408,580	408,580	-
Prior period adjustments	-	-	(247)	(247)
Decrease (increase):				
Encumbrances reserve	-	-	(4,291)	(4,291)
Long-term loans/notes receivable reserve	-	-	(55)	(55)
Advances to other funds reserve	-	-	(3,881)	(3,881)
Special revenue reserve	-	-	-	-
Escheated property reserve	-	-	(267)	(267)
Unreserved fund balances - June 30	\$ 521,040	\$ 468,098	\$ 549,158	\$ 81,060

The notes to the required supplementary information are an integral part of this schedule.

STATE SPECIAL REVENUE FUND				FEDERAL SPECIAL REVENUE FUND			
ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
\$ 163,580	\$ 163,580	\$ 152,261	\$ (11,319)	\$ -	\$ -	\$ -	\$ -
172,173	172,173	126,515	(45,658)	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
11,802	11,802	12,360	558	-	-	-	-
195,376	195,376	211,228	15,852	-	-	-	-
78,296	78,296	86,936	8,640	-	-	-	-
99,892	99,892	83,367	(16,525)	37,225	37,225	31,062	(6,163)
14,525	14,525	16,449	1,924	775	775	1,057	282
4,169	4,169	2,774	(1,395)	-	-	-	-
485	485	771	286	-	-	-	-
9,000	9,000	8,939	(61)	-	-	-	-
20,940	20,940	16,807	(4,133)	74	74	53	(21)
20,089	20,089	10,781	(9,308)	1,603,004	1,603,004	1,379,912	(223,092)
39,283	39,283	30,991	(8,292)	58,551	58,551	50,761	(7,790)
-	-	4	4	-	-	-	-
829,610	829,610	760,183	(69,427)	1,699,629	1,699,629	1,462,845	(236,784)
181,424	183,813	153,716	30,097	9,919	13,117	1,486	11,631
48,785	50,360	45,852	4,508	80,510	99,413	44,212	55,201
418,074	414,627	267,859	146,768	390,028	390,124	273,935	116,189
107,453	108,174	91,539	16,635	1,022,889	1,031,252	877,320	153,932
73,919	74,771	74,179	592	351,002	210,508	182,291	28,217
147,813	151,410	120,814	30,596	98,281	108,259	63,106	45,153
77,497	83,583	76,837	6,746	103,311	102,623	62,893	39,730
1,391	1,283	383	900	272	243	219	24
703	703	703	-	35	35	35	-
81,721	83,058	35,679	47,379	37,795	42,582	13,604	28,978
1,138,780	1,151,782	867,561	284,221	2,094,042	1,998,156	1,519,101	479,055
(309,170)	(322,172)	(107,378)	214,794	(394,413)	(298,527)	(56,256)	242,271
-	-	480	480	-	-	-	-
30,000	30,000	-	(30,000)	-	-	-	-
4,612	4,612	1,149	(3,463)	46	46	22	(24)
185	185	195	10	-	-	-	-
132,558	132,558	128,596	(3,962)	42,118	42,118	7,835	(34,283)
(14,010)	(14,029)	(11,695)	2,334	(44,669)	(32,843)	(19,613)	13,230
153,345	153,326	118,725	(34,601)	(2,505)	9,321	(11,756)	(21,077)
(155,825)	(168,846)	11,347	180,193	(396,918)	(289,206)	(68,012)	221,194
-	-	1,106	1,106	-	-	1	1
-	-	(1,087)	(1,087)	-	-	(1)	(1)
-	-	8	8	-	-	9	9
-	-	17,567	17,567	-	-	5,681	5,681
-	-	20,648	20,648	-	-	58,155	58,155
(155,825)	(168,846)	49,589	218,435	(396,918)	(289,206)	(4,167)	285,039
(51,697)	(51,697)	(51,697)	-	(1,569)	(1,569)	(1,569)	-
-	-	(563)	(563)	-	-	(465)	(465)
-	-	(7,075)	(7,075)	-	-	578	578
-	-	(6,598)	(6,598)	-	-	(146)	(146)
-	-	(1,070)	(1,070)	-	-	-	-
-	-	(25,023)	(25,023)	-	-	(86)	(86)
-	-	-	-	-	-	-	-
\$ (207,522)	\$ (220,543)	\$ (42,437)	\$ 178,106	\$ (398,487)	\$ (290,775)	\$ (5,855)	\$ 284,920

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI-1. BUDGETARY REPORTING

A. State Budget Process

The Montana Legislature meets in the odd-numbered years to prepare annual budgets for the next biennium. The constitution requires that legislative appropriations not exceed available revenues. The Legislature uses revenue estimates in the budgetary process to establish appropriation levels. Expenditures may not legally exceed budget appropriations at the fund level. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues. State law requires an appropriation for disbursements from the general, special revenue and capital projects funds, except for those special revenue funds from non-state and non-federal sources restricted by law or by the terms of an agreement. The level of budgetary control is established by fund type, except capital project funds, which are at project level. Budgets may be established in other funds for administrative purposes.

Agency budget requests are submitted to the Governor, and the Legislative Fiscal Division receives a copy. The Office of Budget and Program Planning (OBPP) and the Governor analyze the requests, establish priorities, and develop the requests into the executive budget request submitted to the Legislature. Joint appropriations subcommittee hearings are held, and an omnibus appropriation bill is reported in the House and subsequently sent to the Senate. The Legislature generally enacts one bill to establish the majority of appropriations for the next two fiscal years. OBPP establishes appropriations for each program by accounting entity (fund) within an agency. The Legislature enacts other appropriations, but only within the available revenue. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by expenditure category (i.e., personal services, operating expenses, equipment, etc.). The budget director or other statutorily designated approving authority may authorize changes among expenditure categories and transfers between program appropriations.

Appropriations may not be increased by amendment in the General Fund. However, a department, institution, or agency of the executive branch desiring authorization to make expenditures from the General Fund during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization from the Governor through the budget director. In the second year of the biennium, during the legislative session, the

Legislature may authorize supplemental appropriations. The Governor, or designee, may approve budget amendments for non-general fund monies not available for consideration by the Legislature and for emergencies. In the accompanying financial schedule, original and final budget amounts are reported. There were no expenditures in excess of total authorized appropriations in the State's budgeted funds for the fiscal year.

Appropriations may be continued into the next fiscal year when authorized by the Legislature or the Governor's office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued or encumbered. Fund balances are not reserved for reverted appropriations. For fiscal year 2007, reverted governmental fund appropriations were as follows: General Fund - \$30.5 million, State Special Revenue Fund - \$57.1 million, and Federal Special Revenue Fund - \$98.2 million. Agencies are allowed to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of OBPP.

Appropriations for capital projects funds are not made on an annual basis, but are adopted on a project-length basis. Because these non-operating budgets primarily serve a management control purpose, and related appropriations are continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided.

B. Budget Basis

The Legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with GAAP. The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end; compensated absences, fixed assets and inventories purchased in proprietary funds; certain loans from governmental funds; and other miscellaneous nonbudgeted activity (e.g., bad-debt write-offs, etc.).

REQUIRED SUPPLEMENTARY INFORMATION
PENSION PLAN INFORMATION
Pension Plan Information
Schedules of Funding Progress
(in thousands)
Single Employer Systems

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability(AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
HPORS						
6/30/2005	82,050	112,938	30,888	72.65%	9,104	339.28%
6/30/2006	87,189	112,002	24,813	77.85%	7,878	314.97%
6/30/2007	95,758	128,306	32,548	74.63%	9,858	330.17%
JRS						
6/30/2005	47,552	34,525	(13,027)	137.73%	4,462	(291.95%)
6/30/2006	51,808	37,159	(14,649)	139.42%	4,762	(307.62%)
6/30/2007	57,778	36,863	(20,915)	156.74%	4,841	(432.04%)
Multiple Employer Systems						
PERS-DBRP						
6/30/2005	3,179,010	3,719,998	540,988	85.46%	847,431	63.84%
6/30/2006	3,459,084	3,919,313	460,229	88.26%	880,708	52.26%
6/30/2007	3,825,234	4,201,251	376,017	91.05%	907,424	41.44%
MPORS						
6/30/2005	159,417	276,379	116,962	57.68%	26,198	446.45%
6/30/2006	175,919	291,099	115,180	60.43%	27,644	416.65%
6/30/2007	198,310	310,423	112,113	63.88%	29,547	379.44%
FURS						
6/30/2005	151,393	238,157	86,764	63.57%	20,474	423.78%
6/30/2006	167,343	255,513	88,170	65.49%	22,917	384.74%
6/30/2007	188,545	269,399	80,854	69.99%	24,250	333.42%
SRS						
6/30/2005	148,458	159,347	10,889	93.17%	28,423	38.31%
6/30/2006	163,003	171,841	8,838	94.86%	34,242	25.81%
6/30/2007	183,894	189,036	5,142	97.28%	43,611	11.79%
GWPORS						
6/30/2005	50,961	56,414	5,453	90.33%	22,796	24.24%
6/30/2006	58,813	64,183	5,370	91.63%	25,846	20.78%
6/30/2007	68,755	72,992	4,237	94.20%	28,799	14.71%
TRS (1)						
7/1/2005	2,497,500	3,527,000	903,300	73.40%	612,600	147.50%
7/1/2006	2,745,800	3,733,600	863,100	76.10%	636,000	135.70%
7/1/2007	3,006,200	3,928,500	768,900	79.60%	664,100	115.80%
Nonemployer Contributor						
VFCA						
6/30/2005	21,311	30,773	9,462	69.25%	N/A	N/A
6/30/2006	23,238	31,883	8,645	72.89%	N/A	N/A
6/30/2007	25,862	31,599	5,737	81.84%	N/A	N/A

(1) For TRS, the unfunded actuarial accrued liability (UAAL) amount doesn't equal column b minus column a as the UAAL amount includes the present value of future university supplemental contributions.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI-2. PENSION PLAN INFORMATION

The information presented in this required supplementary schedule was determined as part of the actuarial valuations at the dates indicated in the table below. Additional information as of the latest actuarial valuation follows:

Pension Plan Information Single Employer Systems		
	HPORS	JRS
Contributions (in thousands)		
Employer	\$3,634	\$1,249
Employee	988	339
License and registration fees	284	
Actuarial valuation date	6/30/07	6/30/07
Actuarial cost method	Entry age	Entry age
Amortization method	Level percentage of total salaries, open	Level percentage of total salaries, open
Remaining amortization period	19.1 years	30 years (1)
Asset valuation method	4-year smoothed market	4-year smoothed market
Actuarial assumptions:		
Investment rate of return	8.0%	8.0%
Projected salary increases (includes inflation factor)	4.25%	4.25%
Merit	0%-7.3%	None
Postretirement benefit increases	None	None

(1) Assets are larger than the past service liability, creating an unfunded credit; the credit is amortized over future costs.

SUPPLEMENTARY INFORMATION

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - BY FUND TYPE

JUNE 30, 2007

(amounts expressed in thousands)

	DEBT SERVICE	CAPITAL PROJECTS	PERMANENT	TOTAL
ASSETS				
Cash/cash equivalents	\$ 21,599	\$ 40,286	\$ 11,944	\$ 73,829
Receivables (net)	2,454	1,385	1,396	5,235
Due from other funds	-	41	-	41
Equity in pooled investments	-	-	216,728	216,728
Long-term loans/notes receivable	28,313	-	-	28,313
Advances to other funds	2,916	-	-	2,916
Investments	1,145	-	5,412	6,557
Securities lending collateral	-	-	11,521	11,521
Total assets	\$ 56,427	\$ 41,712	\$ 247,001	\$ 345,140
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	21	3,803	8	3,832
Interfund loans payable	-	42	-	42
Due to other funds	50	122	2,159	2,331
Due to component units	-	2	-	2
Advances from other funds	14,271	-	-	14,271
Deferred revenue	337	-	-	337
Securities lending liability	-	-	11,521	11,521
Total liabilities	14,679	3,969	13,688	32,336
Fund balances:				
Reserved for:				
Encumbrances	-	8	-	8
Long-term loans/notes receivable	28,313	-	-	28,313
Advances to other funds	2,916	-	-	2,916
Debt service	4,599	-	-	4,599
Trust principal	-	-	233,313	233,313
Unreserved, designated	10,331	-	-	10,331
Unreserved, undesignated	(4,411)	37,735	-	33,324
Total fund balances	41,748	37,743	233,313	312,804
Total liabilities and fund balances	\$ 56,427	\$ 41,712	\$ 247,001	\$ 345,140

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - BY FUND TYPE

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

(amounts expressed in thousands)

	DEBT SERVICE	CAPITAL PROJECTS	PERMANENT	TOTAL
REVENUES				
Licenses/permits	\$ -	\$ -	\$ 431	\$ 431
Taxes:				
Natural resource	674	4,846	769	6,289
Fuel	-	-	14	14
Other	-	2,065	-	2,065
Charges for services/fines/forfeits/settlements	858	298	10,404	11,560
Investment earnings	8,949	1,103	13,892	23,944
Securities lending income	2	1	401	404
Sale of documents/merchandise/property	3,059	-	-	3,059
Rentals/leases/royalties	-	-	131	131
Total revenues	13,542	8,313	26,042	47,897
EXPENDITURES				
Current:				
Public safety/corrections	-	4,209	-	4,209
Education/cultural	-	-	6	6
Resource/recreation/environment	41	-	-	41
Debt service:				
Principal retirement	32,054	-	-	32,054
Interest/fiscal charges	18,130	-	-	18,130
Capital outlay	-	35,488	16	35,504
Securities lending	2	1	393	396
Total expenditures	50,227	39,698	415	90,340
Excess of revenue over (under) expenditures	(36,685)	(31,385)	25,627	(42,443)
OTHER FINANCING SOURCES (USES)				
Refunding bonds issued	16,740	-	-	16,740
Bond premium	946	-	-	946
Payment to refunding bond escrow agent	(17,504)	-	-	(17,504)
General capital asset sale proceeds	-	-	2	2
Transfers in	39,175	26,507	9,095	74,777
Transfers out	(3,581)	(4,658)	(12,401)	(20,640)
Total other financing sources (uses)	35,776	21,849	(3,304)	54,321
Net change in fund balances	(909)	(9,536)	22,323	11,878
Fund balances - July 1 - as previously reported	42,654	47,279	210,990	300,923
Prior period adjustments	3	-	-	3
Fund balances - July 1 - as restated	42,657	47,279	210,990	300,926
Fund balances - June 30	\$ 41,748	\$ 37,743	\$ 233,313	\$ 312,804

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NONMAJOR DEBT SERVICE FUNDS

Debt service funds are used to account for the accumulation of resources for the payment of general long-term obligation principal and interest. A brief description of each debt service fund follows:

Coal Tax – This fund accounts for payments on special revenue renewable resource program (coal severance tax) bonds.

Long-Range Building Program – This fund accounts for payments on general obligation long-range building program bonds.

Water & Wastewater Development – This fund accounts for payments on the following general obligation bonds: wastewater treatment works revolving fund, renewable resource program, drinking water revolving fund, and water pollution control revolving fund.

Water Conservation – This fund accounts for payments on water conservation loans issued for the following projects: Little Dry and Petrolia.

Health Care – This fund accounts for payments on the following special revenue bonds: Montana State Hospital and Montana Developmental Center.

Information Technology – This fund accounts for payments on general obligation information technology bonds.

Energy Conservation Program – This fund accounts for payments on general obligation bonds issued for State Building Energy Conservation Projects.

Environmental Reclamation – This fund accounts for payments on the following general obligation bonds: hard rock mining reclamation and CERCLA program.

Highway – This fund accounts for payments on the U.S. Highway 93 GARVEES special revenue bonds.

**COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS**

JUNE 30, 2007

(amounts expressed in thousands)

	COAL TAX	LONG-RANGE BUILDING PROGRAM	WATER & WASTERWATER DEVELOPMENT	WATER CONSERVATION
ASSETS				
Cash/cash equivalents	\$ 7,498	\$ 1,788	\$ 8,484	\$ -
Receivables (net)	412	50	1,979	-
Due from other funds	-	-	-	-
Long-term loans/notes receivable	11,178	-	17,103	32
Advances to other funds	2,916	-	-	-
Investments	-	-	125	-
Total assets	\$ 22,004	\$ 1,838	\$ 27,691	\$ 32
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	-	2	19	-
Due to other funds	-	-	50	-
Advances from other funds	-	-	14,271	-
Deferred revenue	62	-	275	-
Total liabilities	62	2	14,615	-
Fund balances:				
Reserved for:				
Long-term loans/notes receivable	11,178	-	17,103	32
Advances to other funds	2,916	-	-	-
Debt service	4,599	-	-	-
Unreserved, designated	3,635	1,836	-	-
Unreserved, undesignated	(386)	-	(4,027)	-
Total fund balances	21,942	1,836	13,076	32
Total liabilities and fund balances	\$ 22,004	\$ 1,838	\$ 27,691	\$ 32

HEALTH CARE	ENERGY CONSERVATION PROGRAM	ENVIRONMENTAL RECLAMATION	TOTAL
\$ 3,283	\$ 282	\$ 264	\$ 21,599
-	13	-	2,454
-	-	-	-
-	-	-	28,313
-	-	-	2,916
1,020	-	-	1,145
<u>\$ 4,303</u>	<u>\$ 295</u>	<u>\$ 264</u>	<u>\$ 56,427</u>
-	-	-	21
-	-	-	50
-	-	-	14,271
-	-	-	337
-	-	-	14,679
-	-	-	28,313
-	-	-	2,916
-	-	-	4,599
4,301	295	264	10,331
2	-	-	(4,411)
<u>4,303</u>	<u>295</u>	<u>264</u>	<u>41,748</u>
<u>\$ 4,303</u>	<u>\$ 295</u>	<u>\$ 264</u>	<u>\$ 56,427</u>

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR DEBT SERVICE FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

(amounts expressed in thousands)

	COAL TAX	LONG-RANGE BUILDING PROGRAM	WATER & WASTERWATER DEVELOPMENT	WATER CONSERVATION
REVENUES				
Taxes:				
Natural resource	\$ -	\$ -	\$ 383	\$ -
Charges for services/fines/forfeits/settlements	-	-	8	-
Investment earnings	988	1,140	6,323	2
Securities lending income	1	1	-	-
Sale of documents/merchandise/property	3,059	-	-	-
Total revenues	4,048	1,141	6,714	2
EXPENDITURES				
Current:				
Resource/recreation/environment	-	-	-	-
Debt service:				
Principal retirement	3,095	9,920	4,650	4
Interest/fiscal charges	1,357	6,650	1,866	1
Securities lending	1	1	-	-
Total expenditures	4,453	16,571	6,516	5
Excess of revenue over (under) expenditures	(405)	(15,430)	198	(3)
OTHER FINANCING SOURCES (USES)				
Refunding bonds issued	-	16,740	-	-
Bond premium	-	946	-	-
Payment to refunding bond escrow agent	-	(17,504)	-	-
Transfers in	-	15,924	1,885	-
Transfers out	(2,375)	-	(1,206)	-
Total other financing sources (uses)	(2,375)	16,106	679	-
Net change in fund balances	(2,780)	676	877	(3)
Fund balances - July 1 - as previously reported	24,722	1,157	12,199	35
Prior period adjustments	-	3	-	-
Fund balances - July 1 - as restated	24,722	1,160	12,199	35
Fund balances - June 30	\$ 21,942	\$ 1,836	\$ 13,076	\$ 32

HEALTH CARE	INFORMATION TECHNOLOGY	ENERGY CONSERVATION PROGRAM	ENVIRONMENTAL RECLAMATION	HIGHWAY	TOTAL
\$ -	\$ -	\$ -	\$ 291	\$ -	\$ 674
-	98	752	-	-	858
296	-	200	-	-	8,949
-	-	-	-	-	2
-	-	-	-	-	3,059
296	98	952	291	-	13,542
-	-	38	3	-	41
1,465	6,075	575	140	6,130	32,054
1,476	580	256	197	5,747	18,130
-	-	-	-	-	2
2,941	6,655	869	340	11,877	50,227
(2,645)	(6,557)	83	(49)	(11,877)	(36,685)
-	-	-	-	-	16,740
-	-	-	-	-	946
-	-	-	-	-	(17,504)
2,751	6,557	-	181	11,877	39,175
-	-	-	-	-	(3,581)
2,751	6,557	-	181	11,877	35,776
106	-	83	132	-	(909)
4,197	-	212	132	-	42,654
-	-	-	-	-	3
4,197	-	212	132	-	42,657
\$ 4,303	\$ -	\$ 295	\$ 264	\$ -	\$ 41,748

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NONMAJOR CAPITAL PROJECTS FUNDS

Capital project funds are used to account for financial resources used for the acquisition or construction of major governmental general capital assets. A brief description of each capital project fund follows:

Long-Range Building Program – This fund is maintained to account for resources received and expended for the State's long-range building program. The long-range building program includes costs for the acquisition, construction, and improvement of major capital assets financed by general obligation bonds and interest earned on bond proceeds.

Information Technology Projects – This fund accounts for resources received and expended for information technology projects for various upgrade and replacement activities.

Federal/Private Construction Grants – This fund accounts for federal grants, private donations, and federal matching funds that are restricted to general capital asset construction.

Capital Land Grant – This fund accounts for revenues and expenditures from the Capital Land Grant. Revenues are dedicated for the purpose of constructing capital buildings or additions thereto. Revenues may be transferred to a debt service fund for the payment of principal and interest on bonds issued for capital building construction.

COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS
 JUNE 30, 2007
(amounts expressed in thousands)

	LONG-RANGE BUILDING PROGRAM	INFORMATION TECHNOLOGY PROJECTS	CAPITAL LAND GRANT	TOTAL
ASSETS				
Cash/cash equivalents	\$ 38,611	\$ 332	\$ 1,343	\$ 40,286
Receivables (net)	1,385	-	-	1,385
Due from other funds	41	-	-	41
Total assets	<u>\$ 40,037</u>	<u>\$ 332</u>	<u>\$ 1,343</u>	<u>\$ 41,712</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	3,658	145	-	3,803
Interfund loans payable	42	-	-	42
Due to other funds	115	7	-	122
Due to component units	2	-	-	2
Total liabilities	<u>3,817</u>	<u>152</u>	<u>-</u>	<u>3,969</u>
Fund balances:				
Encumbrances	-	8	-	8
Unreserved	36,220	172	1,343	37,735
Total fund balances	<u>36,220</u>	<u>180</u>	<u>1,343</u>	<u>37,743</u>
Total liabilities and fund balances	<u>\$ 40,037</u>	<u>\$ 332</u>	<u>\$ 1,343</u>	<u>\$ 41,712</u>

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

(amounts expressed in thousands)

	LONG-RANGE BUILDING PROGRAM	INFORMATION TECHNOLOGY PROJECTS	FEDERAL/ PRIVATE CONSTRUCTION GRANTS	CAPITAL LAND GRANT	TOTAL
REVENUES					
Taxes:					
Natural Resource	\$ 4,846	\$ -	\$ -	\$ -	\$ 4,846
Other	2,065	-	-	-	2,065
Charges for services/fines/forfeits/settlements	298	-	-	-	298
Investment earnings	1,103	-	-	-	1,103
Securities lending income	1	-	-	-	1
Other revenues	-	-	-	-	-
Total revenues	8,313	-	-	-	8,313
EXPENDITURES					
Current:					
Public safety/corrections	-	4,209	-	-	4,209
Capital outlay	35,300	180	8	-	35,488
Securities lending	1	-	-	-	1
Total expenditures	35,301	4,389	8	-	39,698
Excess of revenue over (under) expenditures	(26,988)	(4,389)	(8)	-	(31,385)
OTHER FINANCING SOURCES (USES)					
Bonds issued	-	-	-	-	-
Transfers in	21,507	4,121	8	871	26,507
Transfers out	(3,670)	-	-	(988)	(4,658)
Total other financing sources (uses)	17,837	4,121	8	(117)	21,849
Net change in fund balances	(9,151)	(268)	-	(117)	(9,536)
Fund balances - July 1 - as previously reported	45,371	448	-	1,460	47,279
Prior period adjustments	-	-	-	-	-
Fund balances - July 1 - as restated	45,371	448	-	1,460	47,279
Fund balances - June 30	\$ 36,220	\$ 180	\$ -	\$ 1,343	\$ 37,743

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NONMAJOR PERMANENT FUNDS

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used to support state government programs. A brief description of each permanent fund follows:

Resource Indemnity – Taxes paid by persons engaging in or carrying on the business of mining, extracting, or producing minerals are deposited in this fund. Only the net earnings of the trust may be appropriated until the principal reaches \$100 million. Interest earnings are expended from a special revenue fund. This fund is administered by the Department of Revenue.

Parks Trust and Cultural Trust – A portion of coal severance taxes are credited to these funds by the Department of Revenue. Income from the trusts is used for the acquisition and maintenance of state parks and historical sites by the Department of Fish, Wildlife and Parks. The Montana Arts Council uses income from the trusts for the protection of works of art in the State Capitol and for other cultural projects.

Real Property Trust – Money received by the Department of Fish, Wildlife and Parks from the sale of real property; the exploration and development of oil, gas, and mineral deposits; and leasing department real property is deposited in this fund. Interest is recorded in a special revenue fund and used for developing and maintaining real property of the department.

Noxious Weed Management – The Department of Agriculture accounts for revenues and interest earned on fees charged for the control of noxious weeds.

Historical Society Trusts – The fund accounts for memorials, bequests, and various other contributions to the Montana Historical Society. Includes the following trust funds: James H. Bradley Memorial, Thomas Teakle, Merritt-Wheeler Memorial, Historical Society Acquisitions, Sobotka Memorial, and Edger I. and Jane R. Stewart.

PHHS Trusts – This fund provides services and activities related to a broad range of child abuse and neglect prevention activities operated by non-profit or public community educational and service organizations.

Tobacco Settlement Interest – This fund holds interest earned by investing the Tobacco Settlement Principal.

Zortman/Landusky Water Treatment – This fund provides for long-term or perpetual water treatment at the Zortman and Landusky mine sites.

**COMBINING BALANCE SHEET
NONMAJOR PERMANENT FUNDS**

JUNE 30, 2007

(amounts expressed in thousands)

	RESOURCE INDEMNITY	PARKS TRUST	CULTURAL TRUST	REAL PROPERTY TRUST	NOXIOUS WEED MANAGEMENT
ASSETS					
Cash/cash equivalents	\$ 723	\$ 514	\$ 136	\$ 1,050	\$ 1,130
Receivables (net)	530	216	109	64	70
Equity in pooled investments	101,115	17,198	8,526	11,362	993
Investments	-	-	-	-	2,938
Securities lending collateral	4,477	762	378	503	1,964
Total assets	\$ 106,845	\$ 18,690	\$ 9,149	\$ 12,979	\$ 7,095
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	-	-	-	-	8
Due to other funds	1,231	119	105	86	255
Securities lending liability	4,477	762	378	503	1,964
Total liabilities	5,708	881	483	589	2,227
Fund balances:					
Reserved for:					
Trust principal	101,137	17,809	8,666	12,390	4,868
Total fund balances	101,137	17,809	8,666	12,390	4,868
Total liabilities and fund balances	\$ 106,845	\$ 18,690	\$ 9,149	\$ 12,979	\$ 7,095

HISTORICAL SOCIETY TRUSTS	DPHHS TRUSTS	TOBACCO SETTLEMENT INTEREST	ZORTMAN/ LANDUSKY WATER TREATMENT	TOTAL
\$ 111	\$ 7,734	\$ 493	\$ 53	\$ 11,944
3	-	404	-	1,396
1,317	-	76,217	-	216,728
-	-	-	2,474	5,412
62	-	3,375	-	11,521
<u>\$ 1,493</u>	<u>\$ 7,734</u>	<u>\$ 80,489</u>	<u>\$ 2,527</u>	<u>\$ 247,001</u>
-	-	-	-	8
-	-	363	-	2,159
62	-	3,375	-	11,521
62	-	3,738	-	13,688
1,431	7,734	76,751	2,527	233,313
1,431	7,734	76,751	2,527	233,313
<u>\$ 1,493</u>	<u>\$ 7,734</u>	<u>\$ 80,489</u>	<u>\$ 2,527</u>	<u>\$ 247,001</u>

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR PERMANENT FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

(amounts expressed in thousands)

	RESOURCE INDEMNITY	PARKS TRUST	CULTURAL TRUST	REAL PROPERTY TRUST	NOXIOUS WEED MANAGEMENT
REVENUES					
Licenses/permits	\$ -	\$ -	\$ -	\$ 431	\$ -
Taxes:					
Natural resource	-	513	256	-	-
Fuel	-	-	-	-	14
Charges for services/fines/forfeits/settlements	-	-	-	-	-
Investment earnings	6,665	1,120	553	712	218
Securities lending income	180	30	15	22	28
Rentals/leases/royalties	-	-	-	131	-
Total revenues	6,845	1,663	824	1,296	260
EXPENDITURES					
Current:					
Education/cultural	-	-	-	-	-
Capital outlay	-	-	-	-	-
Securities lending	176	29	15	22	28
Total expenditures	176	29	15	22	28
Excess of revenue over (under) expenditures	6,669	1,634	809	1,274	232
OTHER FINANCING SOURCES (USES)					
General capital asset sale proceeds	-	-	-	-	-
Transfers in	-	-	-	7	155
Transfers out	(6,220)	(965)	(516)	(657)	(256)
Total other financing sources (uses)	(6,220)	(965)	(516)	(650)	(101)
Net change in fund balances	449	669	293	624	131
Fund balances - July 1 - as previously reported	100,688	17,140	8,373	11,766	4,737
Fund balances - June 30	\$ 101,137	\$ 17,809	\$ 8,666	\$ 12,390	\$ 4,868

HISTORICAL SOCIETY TRUSTS	DPHHS TRUSTS	TOBACCO SETTLEMENT INTEREST	ZORTMAN/ LANDUSKY WATER TREATMENT	TOTAL
\$ -	\$ -	\$ -	\$ -	\$ 431
-	-	-	-	769
-	-	-	-	14
-	-	10,404	-	10,404
171	-	4,348	105	13,892
2	-	121	3	401
-	-	-	-	131
173	-	14,873	108	26,042
6	-	-	-	6
16	-	-	-	16
2	-	118	3	393
24	-	118	3	415
149	-	14,755	105	25,627
2	-	-	-	2
-	7,733	-	1,200	9,095
-	-	(3,787)	-	(12,401)
2	7,733	(3,787)	1,200	(3,304)
151	7,733	10,968	1,305	22,323
1,280	1	65,783	1,222	210,990
\$ 1,431	\$ 7,734	\$ 76,751	\$ 2,527	\$ 233,313

NONMAJOR ENTERPRISE FUNDS

Enterprise funds are used to account for operations that provide goods or services to the public on a user charge basis. A brief description of each enterprise fund follows:

Liquor Warehouse – This fund accounts for activities related to the sale and distribution of alcoholic beverages and licensing within the State. Profits and license fees are used to finance General Fund expenditures.

Hail Insurance – Any producer engaged in the growing of crops subject to damage by hail may participate in the hail insurance program. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs, and benefits paid by the Department of Agriculture.

State Lottery – This fund accounts for the operations of Montana's lottery.

Prison Industries – These operations provide training and employment for inmates. The products produced are sold to state agencies, non-profit organizations, and other customers in accordance with state policies.

MUS Group Insurance – This fund accounts for employee contributions to the Montana University System's medical/dental self-insurance plan.

MUS Workers Compensation – This fund accounts for self-insured workers compensation coverage for employees of the Montana University System.

Subsequent Injury – This fund accounts for the assessments collected from employers and benefits paid to workers who are certified as vocationally handicapped and are injured on the job.

Secretary of State Business Services – This fund accounts for the Business and Government Services activities and the Administrative Code Program of the Secretary of State's Office.

Historical Society Publications – This fund accounts for the Historical Society's sales from "Montana, The Magazine of Western History"; books; publications; and merchandise from the Historical Society store.

Surplus Property – The Department of Administration accounts for intragovernmental sales of state and federal surplus property to state agencies, local governments, and designated non-profit organizations.

West Yellowstone Airport – This fund, administered by the Department of Transportation, accounts for operations of the airport at West Yellowstone. User airlines are assessed rental and landing fees.

Local Government Audits – This fund accounts for the costs incurred by the Department of Administration for audits of local governments, required under Sections 2-7-501 through 522 of the Montana Code Annotated, and the fees assessed the local governments for the audits.

Flexible Spending Administration – This fund accounts for the fees collected from the participants in the Flexible Spending Programs and the related administrative costs of the plans administered by the Department of Administration and the Office of the Commissioner of Higher Education.

HUD Section 8 Housing – This fund accounts for a program that provides rental assistance to low-income families throughout Montana.

Other Enterprise Funds – This category includes several small enterprise funds administered by various agencies.

COMBINING STATEMENT OF NET ASSETS
NONMAJOR ENTERPRISE FUNDS

JUNE 30, 2007

(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
ASSETS				
Current assets:				
Cash/cash equivalents	\$ 3,758	\$ 12,559	\$ 1,839	\$ 1,156
Receivables (net)	16,085	5,075	1,382	345
Due from other governments	-	-	-	-
Due from other funds	5	1	1	235
Due from component units	1	-	-	13
Inventories	64	-	1,614	5,065
Securities lending collateral	-	-	-	-
Other current assets	81	-	27	-
Total current assets	19,994	17,635	4,863	6,814
Noncurrent assets:				
Advances to other funds	75	-	-	-
Long-term investments	-	-	-	-
Long-term notes/loans receivable	-	-	-	-
Deferred charges	-	-	-	-
Other long-term assets	-	-	1,510	292
Capital assets:				
Land	-	-	-	690
Land improvements	-	-	-	240
Buildings/improvements	2,044	-	-	4,667
Equipment	362	-	422	3,810
Infrastructure	-	-	-	884
Construction in progress	-	-	-	430
Intangible assets	-	-	-	-
Less accumulated depreciation	(1,548)	-	(283)	(5,469)
Total capital assets	858	-	139	5,252
Total noncurrent assets	933	-	1,649	5,544
Total assets	20,927	17,635	6,512	12,358

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS	SURPLUS PROPERTY
\$ 30,102	\$ 7,731	\$ 127	\$ 3,942	\$ 241	\$ 10
475	14	15	21	20	47
-	-	-	-	-	-
-	-	2	8	8	12
2,019	169	-	3	-	-
-	-	-	44	429	113
-	-	474	-	-	-
-	-	-	27	-	1
32,596	7,914	618	4,045	698	183
-	-	-	-	-	-
-	653	1,005	-	-	-
-	-	-	-	-	-
-	9	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	118
-	-	-	341	11	146
-	-	-	-	-	-
-	-	-	20	-	-
-	-	-	271	-	-
-	-	-	(226)	(10)	(166)
-	-	-	406	1	98
-	662	1,005	406	1	98
32,596	8,576	1,623	4,451	699	281

(Continued on Next Page)

COMBINING STATEMENT OF NET ASSETS - Continued
NONMAJOR ENTERPRISE FUNDS

JUNE 30, 2007

(amounts expressed in thousands)

	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
ASSETS			
Current assets:			
Cash/cash equivalents	\$ 430	\$ 220	\$ 934
Receivables (net)	-	-	280
Due from other governments	-	-	-
Due from other funds	-	-	-
Due from component units	-	-	149
Inventories	-	-	-
Securities lending collateral	-	-	-
Other current assets	-	-	-
Total current assets	430	220	1,363
Noncurrent assets:			
Advances to other funds	-	-	-
Long-term investments	-	-	-
Long-term notes/loans receivable	-	-	-
Deferred charges	-	-	-
Other long-term assets	-	-	-
Capital assets:			
Land	110	-	-
Land improvements	2,103	-	-
Buildings/improvements	487	-	-
Equipment	71	-	-
Infrastructure	-	-	-
Construction in progress	9	-	-
Intangible assets	-	-	-
Less accumulated depreciation	(860)	-	-
Total capital assets	1,920	-	-
Total noncurrent assets	1,920	-	-
Total assets	2,350	220	1,363

	HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
\$	8,089	\$ 488	\$ 71,626
	97	1	23,857
	829	56	885
	1	98	371
	-	-	2,354
	-	114	7,443
	-	-	474
	20	-	156
	9,036	757	107,166
	-	-	75
	-	-	1,658
	539	-	539
	-	-	9
	-	-	1,802
	-	-	800
	-	-	2,343
	-	-	7,316
	52	68	5,283
	-	-	884
	-	-	459
	4	-	275
	(45)	(55)	(8,662)
	11	13	8,698
	550	13	12,781
	9,586	770	119,947

(Continued on Next Page)

COMBINING STATEMENT OF NET ASSETS - Continued
NONMAJOR ENTERPRISE FUNDS

JUNE 30, 2007

(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 4,984	\$ 13	\$ 655	\$ 248
Lottery prizes payable	-	-	1,600	-
Interfund loans payable	-	-	-	-
Due to other governments	-	-	-	-
Due to other funds	11,127	99	2,863	59
Due to component units	-	-	-	-
Deferred revenue	1,047	4,859	107	34
Bonds/notes payable (net)	-	-	-	-
Amounts held in custody for others	585	-	-	-
Securities lending liability	-	-	-	-
Estimated insurance claims	-	519	-	-
Compensated absences payable	135	14	119	107
Total current liabilities	17,878	5,504	5,344	448
Noncurrent liabilities:				
Lottery prizes payable	-	-	1,106	-
Estimated insurance claims	-	-	-	-
Compensated absences payable	115	13	62	164
Total noncurrent liabilities	115	13	1,168	164
Total liabilities	17,993	5,517	6,512	612
NET ASSETS				
Invested in capital assets, net of related debt	859	-	139	5,252
Restricted for:				
Other purposes	-	12,118	-	-
Unrestricted	2,075	-	(139)	6,494
Total net assets	\$ 2,934	\$ 12,118	\$ -	\$ 11,746

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS	SURPLUS PROPERTY
\$ 2,388	\$ 52	\$ 99	\$ 205	\$ 40	\$ 29
-	-	-	-	-	-
-	-	-	-	82	225
-	-	-	-	-	-
15	34	-	31	9	14
-	-	-	-	-	-
5	-	-	172	97	-
-	430	-	-	-	-
-	-	-	4	-	-
-	-	474	-	-	-
6,250	632	500	-	-	-
10	3	-	139	22	21
8,668	1,151	1,073	551	250	289
-	-	-	-	-	-
-	4,871	2,706	-	-	-
14	-	-	92	40	10
14	4,871	2,706	92	40	10
8,682	6,022	3,779	643	290	299
-	-	-	406	1	98
23,914	2,554	-	-	-	-
-	-	(2,156)	3,402	408	(116)
\$ 23,914	\$ 2,554	\$ (2,156)	\$ 3,808	\$ 409	\$ (18)

(Continued on Next Page)

COMBINING STATEMENT OF NET ASSETS - Continued
NONMAJOR ENTERPRISE FUNDS

JUNE 30, 2007

(amounts expressed in thousands)

	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 21	\$ 9	\$ 197
Lottery prizes payable	-	-	-
Interfund loans payable	-	-	-
Due to other governments	-	-	-
Due to other funds	1	1	-
Due to component units	-	-	-
Deferred revenue	-	-	-
Bonds/notes payable (net)	-	-	-
Amounts held in custody for others	1	-	-
Securities lending liability	-	-	-
Estimated insurance claims	-	-	-
Compensated absences payable	5	13	-
Total current liabilities	28	23	197
Noncurrent liabilities:			
Lottery prizes payable	-	-	-
Estimated insurance claims	-	-	-
Compensated absences payable	7	17	-
Total noncurrent liabilities	7	17	-
Total liabilities	35	40	197
NET ASSETS			
Invested in capital assets, net of related debt	1,919	-	-
Restricted for:			
Other purposes	396	-	1,166
Unrestricted	-	180	-
Total net assets	\$ 2,315	\$ 180	\$ 1,166

	HUD SECTION 8 HOUSING		OTHER ENTERPRISE FUNDS		TOTAL
\$	56	\$	177	\$	9,173
	-		-		1,600
	-		-		307
	52		-		52
	21		9		14,283
	-		7		7
	-		-		6,321
	-		-		430
	-		-		590
	-		-		474
	-		-		7,901
	81		19		688
	210		212		41,826
	-		-		1,106
	-		-		7,577
	-		32		566
	-		32		9,249
	210		244		51,075
	11		13		8,698
	9,365		513		50,026
	-		-		10,148
\$	9,376	\$	526	\$	68,872

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
NONMAJOR ENTERPRISE FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
Operating revenues:				
Charges for services	\$ 63,812	\$ -	\$ 41,567	\$ 5,600
Investment earnings	-	560	267	-
Securities lending income	-	1	-	-
Contributions/premiums	-	6,032	-	-
Grants/contracts/donations	-	-	-	-
Taxes	19,046	-	-	-
Other operating revenues	148	9	2	-
Total operating revenues	83,006	6,602	41,836	5,600
Operating expenses:				
Personal services	2,170	274	1,622	2,400
Contractual services	557	182	5,195	107
Supplies/materials	52,282	1	1,119	2,666
Benefits/claims	-	1,576	-	-
Depreciation	96	-	31	327
Amortization	-	-	-	-
Utilities/rent	154	6	113	183
Communications	77	5	708	18
Travel	26	27	52	15
Repair/maintenance	126	-	16	339
Grants	-	-	-	-
Lottery prize payments	-	-	21,417	-
Interest expense	-	-	-	-
Securities lending expense	-	1	-	-
Dividend expense	-	2,583	-	-
Other operating expenses	33	8	141	372
Total operating expenses	55,521	4,663	30,414	6,427
Operating income (loss)	27,485	1,939	11,422	(827)
Nonoperating revenues (expenses):				
Gain (loss) on sale of capital assets	(3)	-	(2)	-
Increase (decrease) value of livestock	-	-	-	(57)
Total nonoperating revenues (expenses)	(3)	-	(2)	(57)
Income (loss) before contributions and transfers	27,482	1,939	11,420	(884)
Capital contributions	-	-	-	-
Transfers in	-	-	-	-
Transfers out	(27,677)	(50)	(11,420)	-
Change in net assets	(195)	1,889	-	(884)
Total net assets - July 1 - as previously reported	3,137	10,229	-	12,630
Prior period adjustments	(8)	-	-	-
Total net assets - July 1 - as restated	3,129	10,229	-	12,630
Total net assets - June 30	\$ 2,934	\$ 12,118	\$ -	\$ 11,746

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS	SURPLUS PROPERTY
\$ -	\$ -	\$ 81	\$ 4,734	\$ 856	\$ 330
1,518	344	70	196	-	-
2	-	15	-	-	-
57,159	4,047	-	-	-	-
624	-	-	-	-	-
-	-	-	-	-	-
597	-	-	79	8	-
59,900	4,391	166	5,009	864	330
192	8	-	2,514	343	217
3,509	463	-	1,169	199	35
49	1	-	86	288	322
54,158	2,101	822	-	-	-
-	-	-	34	-	13
-	-	-	747	-	-
17	-	-	191	1	22
9	-	-	675	29	9
8	-	-	72	8	1
1	-	-	169	10	11
-	-	-	-	-	-
-	-	-	-	-	-
-	34	-	-	-	-
2	-	14	-	-	-
-	-	-	-	-	-
588	39	-	46	35	10
58,533	2,646	836	5,703	913	640
1,367	1,745	(670)	(694)	(49)	(310)
-	-	-	-	-	(11)
-	-	-	-	-	-
-	-	-	-	-	(11)
1,367	1,745	(670)	(694)	(49)	(321)
-	-	-	-	-	171
-	-	-	-	50	-
-	-	(44)	(1)	-	-
1,367	1,745	(714)	(695)	1	(150)
22,542	809	(1,442)	3,886	408	132
5	-	-	617	-	-
22,547	809	(1,442)	4,503	408	132
\$ 23,914	\$ 2,554	\$ (2,156)	\$ 3,808	\$ 409	\$ (18)

(Continued on Next Page)

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - Continued
NONMAJOR ENTERPRISE FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

(amounts expressed in thousands)

	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
Operating revenues:			
Charges for services	\$ 49	\$ 294	\$ 120
Investment earnings	-	-	20
Securities lending income	-	-	-
Contributions/premiums	-	-	10,285
Grants/contracts/donations	-	-	-
Taxes	-	-	-
Other operating revenues	112	-	-
Total operating revenues	161	294	10,425
Operating expenses:			
Personal services	112	193	-
Contractual services	20	17	107
Supplies/materials	(2)	4	-
Benefits/claims	-	-	9,783
Depreciation	124	-	-
Amortization	-	-	-
Utilities/rent	29	29	-
Communications	9	5	-
Travel	6	1	-
Repair/maintenance	18	2	-
Grants	-	-	-
Lottery prize payments	-	-	-
Interest expense	-	-	-
Securities lending expense	-	-	-
Dividend expense	-	-	-
Other operating expenses	2	21	123
Total operating expenses	318	272	10,013
Operating income (loss)	(157)	22	412
Nonoperating revenues (expenses):			
Gain (loss) on sale of capital assets	-	-	-
Increase (decrease) value of livestock	-	-	-
Total nonoperating revenues (expenses)	-	-	-
Income (loss) before contributions and transfers	(157)	22	412
Capital contributions	-	-	-
Transfers in	29	-	-
Transfers out	-	-	-
Change in net assets	(128)	22	412
Total net assets - July 1 - as previously reported	2,443	158	754
Prior period adjustments	-	-	-
Total net assets - July 1 - as restated	2,443	158	754
Total net assets - June 30	\$ 2,315	\$ 180	\$ 1,166

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
\$ 56	\$ 1,281	\$ 118,780
393	6	3,374
-	-	18
-	-	77,523
38,306	-	38,930
-	-	19,046
-	109	1,064
38,755	1,396	258,735
887	381	11,313
162	533	12,255
40	174	57,030
31,249	1	99,690
7	3	635
12	-	759
94	15	854
42	7	1,593
34	17	267
13	20	725
1,333	-	1,333
-	-	21,417
-	-	34
-	-	17
-	-	2,583
95	25	1,538
33,968	1,176	212,043
4,787	220	46,692
(2)	-	(18)
-	-	(57)
(2)	-	(75)
4,785	220	46,617
-	-	171
-	-	79
-	-	(39,192)
4,785	220	7,675
3,868	306	59,860
723	-	1,337
4,591	306	61,197
\$ 9,376	\$ 526	\$ 68,872

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from sales and services	\$ 62,141	\$ 5,857	\$ 40,997	\$ 5,690
Payments to suppliers for goods and services	(42,026)	(191)	(7,497)	(3,518)
Payments to employees	(2,120)	(267)	(1,619)	(2,373)
Grant receipts	-	-	-	-
Grant payments	-	-	-	-
Cash payments for claims	-	(1,152)	-	-
Cash payments for prizes	-	-	(21,333)	-
Other operating revenues	148	-	-	-
Other operating payments	-	(2,583)	-	-
Net cash provided by (used for) operating activities	18,143	1,664	10,548	(201)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Collection of taxes	19,046	-	-	-
Transfers to other funds	(37,442)	(50)	(11,276)	-
Transfers from other funds	-	-	-	-
Proceeds from interfund loans/advances	-	-	-	-
Payments of interfund loans/advances	-	-	-	-
Payment of principal and interest on bonds and notes	-	-	-	-
Net cash provided by (used for) noncapital financing activities	(18,396)	(50)	(11,276)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	38	-	(50)	(144)
Proceeds from sale of capital assets	(2)	-	3	-
Net cash used for capital and related financing activities	36	-	(47)	(144)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	-	-	-	-
Proceeds from sales or maturities of investments	-	-	-	-
Proceeds from securities lending transactions	-	1	-	-
Interest and dividends on investments	-	510	249	-
Payment of securities lending costs	-	(1)	-	-
Net cash provided by (used for) investing activities	-	510	249	-
Net increase (decrease) in cash and cash equivalents	(217)	2,124	(526)	(345)
Cash and cash equivalents, July 1	3,975	10,435	2,365	1,501
Cash and cash equivalents, June 30	\$ 3,758	\$ 12,559	\$ 1,839	\$ 1,156

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS	SURPLUS PROPERTY
57,087 \$	4,205 \$	82 \$	4,805 \$	816 \$	478
(4,407)	-	-	(3,102)	(540)	(306)
(411)	(209)	-	(2,417)	(332)	(197)
-	-	-	-	-	-
-	-	-	-	-	-
(52,419)	(1,135)	(493)	-	-	-
-	(13)	-	-	-	-
597	-	-	79	8	-
-	(4)	-	-	-	-
447	2,844	(411)	(635)	(48)	(25)
-	(2)	-	-	-	-
-	-	(44)	(1)	-	-
-	-	-	-	50	-
-	-	(33)	-	82	-
3	-	-	-	-	-
-	(444)	-	-	-	-
3	(446)	(77)	(1)	132	-
-	-	-	552	-	-
-	-	-	-	-	2
-	-	-	552	-	2
-	-	-	-	-	-
-	1,304	241	-	-	-
2	-	15	-	-	-
1,518	344	74	196	-	-
(2)	-	(14)	-	-	-
1,518	1,648	316	196	-	-
1,968	4,046	(172)	112	84	(23)
28,134	3,685	299	3,830	157	33
30,102 \$	7,731 \$	127 \$	3,942 \$	241	10

(Continued on Next Page)

COMBINING STATEMENT OF CASH FLOWS - Continued
NONMAJOR ENTERPRISE FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

(amounts expressed in thousands)

	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from sales and services	\$ 49	\$ 296	\$ 10,227
Payments to suppliers for goods and services	(78)	(86)	(238)
Payments to employees	(94)	(225)	-
Grant receipts	-	-	-
Grant payments	-	-	-
Cash payments for claims	-	-	(9,624)
Cash payments for prizes	-	-	-
Other operating revenues	112	-	-
Other operating payments	-	-	-
Net cash provided by (used for) operating activities	(11)	(15)	365
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Collection of taxes	-	-	-
Transfers to other funds	-	-	-
Transfers from other funds	29	-	-
Proceeds from interfund loans/advances	-	-	-
Payments of interfund loans/advances	-	-	-
Payment of principal and interest on bonds and notes	-	-	-
Net cash provided by (used for) noncapital financing activities	29	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(9)	-	-
Proceeds from sale of capital assets	-	-	-
Net cash used for capital and related financing activities	(9)	-	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	-	-	-
Proceeds from sales or maturities of investments	-	-	-
Proceeds from securities lending transactions	-	-	-
Interest and dividends on investments	-	-	18
Payment of securities lending costs	-	-	-
Net cash provided by (used for) investing activities	-	-	18
Net increase (decrease) in cash and cash equivalents	9	(15)	383
Cash and cash equivalents, July 1	421	235	551
Cash and cash equivalents, June 30	\$ 430	\$ 220	\$ 934

HUD SECTION 8 HOUSING	OTHER ENTERPRISE FUNDS	TOTAL
\$ 1	\$ 1,138	\$ 193,869
(31,737)	(795)	(94,521)
(891)	(281)	(11,436)
36,137	-	36,137
(1,333)	-	(1,333)
-	(1)	(64,824)
-	-	(21,346)
-	109	1,053
-	-	(2,587)
2,177	170	35,012
-	-	19,044
-	-	(48,813)
-	-	79
-	-	49
-	-	3
-	-	(444)
-	-	(30,082)
(19)	-	368
-	-	3
(19)	-	371
(271)	-	(271)
-	-	1,545
-	-	18
393	6	3,308
-	-	(17)
122	6	4,583
2,280	176	9,884
5,809	312	61,742
\$ 8,089	\$ 488	\$ 71,626

(Continued on Next Page)

COMBINING STATEMENT OF CASH FLOWS - Continued
NONMAJOR ENTERPRISE FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$ 27,485	\$ 1,939	\$ 11,422	\$ (827)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:				
Depreciation	96	-	31	327
Amortization	-	-	-	-
Taxes	(19,046)	-	-	-
Interest expense	-	-	-	-
Securities lending expense	-	1	-	-
Investment earnings	-	(510)	(267)	-
Securities lending income	-	(1)	-	-
Change in assets and liabilities:				
Decr (incr) in accounts receivable	(1,842)	(1,970)	(576)	41
Decr (incr) in due from other funds	(4)	8	-	(82)
Decr (incr) in due from component units	-	-	-	(9)
Decr (incr) in due from other governments	-	-	-	-
Decr (incr) in inventories	(7)	-	(220)	371
Decr (incr) in other assets	(69)	-	(1)	(115)
Incr (decr) in accounts payable	311	1	357	38
Incr (decr) in lottery prizes payable	-	-	(101)	-
Incr (decr) in due to other funds	11,006	31	3	30
Incr (decr) in due to component units	-	-	-	-
Incr (decr) in due to other governments	-	-	-	-
Incr (decr) in deferred revenue	(333)	1,736	(97)	19
Incr (decr) in amounts held in custody for others	506	-	-	(1)
Incr (decr) in compensated absences payable	40	5	(3)	7
Incr (decr) in estimated claims	-	424	-	-
Net cash provided by (used for) operating activities	\$ 18,143	\$ 1,664	\$ 10,548	\$ (201)

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS	SURPLUS PROPERTY
1,367 \$	1,745 \$	(670) \$	(694) \$	(49) \$	(310)
-	-	-	34	-	13
-	9	-	747	-	-
-	-	-	-	-	-
-	24	-	-	-	-
2	-	14	-	-	-
(1,518)	(344)	(70)	(196)	-	-
(2)	-	(15)	-	-	-
(184)	-	-	(16)	(10)	(19)
-	-	(2)	39	2	(5)
(520)	158	5	1	-	-
-	-	-	-	-	-
-	-	-	(24)	37	272
3	215	-	(612)	-	(1)
1,533	38	97	63	5	10
-	-	-	-	-	-
(20)	-	-	(65)	4	13
-	34	-	-	-	-
-	-	-	-	-	-
4	-	-	41	(32)	-
-	-	-	-	-	-
4	-	-	47	(5)	2
(222)	965	230	-	-	-
447 \$	2,844 \$	(411) \$	(635) \$	(48) \$	(25)

(Continued on Next Page)

COMBINING STATEMENT OF CASH FLOWS - Continued
NONMAJOR ENTERPRISE FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

(amounts expressed in thousands)

	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	\$ (157)	\$ 22	\$ 412
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:			
Depreciation	124	-	-
Amortization	-	-	-
Taxes	-	-	-
Interest expense	-	-	-
Securities lending expense	-	-	-
Investment earnings	-	-	(18)
Securities lending income	-	-	-
Change in assets and liabilities:			
Decr (incr) in accounts receivable	-	4	(37)
Decr (incr) in due from other funds	-	-	6
Decr (incr) in due from component units	-	-	(149)
Decr (incr) in due from other governments	-	-	-
Decr (incr) in inventories	-	-	-
Decr (incr) in other assets	-	-	-
Incr (decr) in accounts payable	12	(9)	151
Incr (decr) in lottery prizes payable	-	-	-
Incr (decr) in due to other funds	1	-	-
Incr (decr) in due to component units	-	-	-
Incr (decr) in due to other governments	-	-	-
Incr (decr) in deferred revenue	-	-	-
Incr (decr) in amounts held in custody for others	-	-	-
Incr (decr) in compensated absences payable	9	(32)	-
Incr (decr) in estimated claims	-	-	-
Net cash provided by (used for) operating activities	\$ (11)	\$ (15)	\$ 365

	HUD SECTION 8 HOUSING		OTHER ENTERPRISE FUNDS		TOTAL
	\$	4,787	\$	220	\$ 46,692
		7		3	635
		12		-	768
		-		-	(19,046)
		-		-	24
		-		-	17
		(393)		(6)	(3,322)
		-		-	(18)
		(55)		(1)	(4,665)
		(1)		(86)	(125)
		-		-	(514)
		(584)		-	(584)
		-		(3)	426
		-		-	(580)
		(2)		98	2,703
		-		-	(101)
		4		(8)	10,999
		-		-	34
		(353)		(56)	(409)
		(1,236)		-	102
		-		-	505
		(9)		9	74
		-		-	1,397
	\$	2,177	\$	170	\$ 35,012

INTERNAL SERVICE FUNDS

Internal service funds are used to account for operations that provide goods or services to other agencies or programs of state government on a cost-reimbursement basis. A brief description of each internal service fund follows:

FWP Equipment – This fund is used to account for interdepartmental and intradepartmental sales and use of FWP equipment.

Highway Equipment – This fund is used to account for interdepartmental and intradepartmental sales and use of Department of Transportation equipment.

Employee Group Benefits – This fund receives employee (excluding higher education units) withholdings and state contributions to the medical self-insurance plan. The State contracted with Blue Cross and Blue Shield of Montana to oversee the administrative functions of the program.

Information Technology Services – State agencies and private users are assessed a fee for their use of the State's phone system, centralized data processing, and systems design services provided by the Department of Administration.

Administration Insurance – In this fund, the Department of Administration accounts for the State's property self-insurance program (including liability, property, flood, etc.).

Administration Supply – This fund is used by the Department of Administration to account for intragovernmental sales of office supplies and paper products to state agencies.

Motor Pool – State employee transportation is provided by the Department of Transportation through a pool of vehicles. The cost of operating the Motor Pool is recovered through rental rates charged to user agencies based on the average operating costs per mile for each class of vehicle.

Print & Mail Services – Agencies are assessed a fee for duplicating, typesetting, forms design, and graphic arts services.

Buildings & Grounds – Rental proceeds from state agencies are used to pay maintenance, security, and landscaping costs for state-owned property.

Central Service Funds – This fund group consists of four funds, used by the Department of Administration, the Department of Labor and Industry, the Department of Commerce, and the Office of Public Instruction, for administrative services provided on a cost recovery basis to programs within the departments.

DEQ Indirect Cost Pool – This fund is used to account for funds collected as indirect costs from the operating units of the Department of Environmental Quality and to fund the department's indirect cost pool operations that provide services to the department.

Payroll Processing – This fund accounts for the payments received from state agencies for the costs associated with the processing of payroll warrants.

Warrant Processing – This fund accounts for the payments received from state agencies for the costs associated with the processing of all warrants other than payroll.

Investment Division – This fund accounts for costs associated with operations of the Board of Investments (BOI). BOI assists agencies in the investment of state funds. Costs of administering and accounting for each investment fund are allocated based on the dollar volume of investments held by user agencies.

Aircraft Operation – This fund is used by the Department of State Lands to account for fees charged to users of state aircraft.

Justice Legal Services – The Attorney General's Office and the Department of Justice charge other state agencies a fee for legal assistance. The Department of Administration funds legal services with intradepartmental fees.

Personnel Training – This fund accounts for fees charged to state agencies for training state employees. The fees are used by the Department of Administration to pay instructors and purchase training materials.

Debt Collection – The debt collection component of this fund accounts for fees charged for the collection of bad debts.

Prison Industries – These operations provide training and employment for inmates, where the products produced are primarily sold to other state agencies.

Other Internal Services – This category includes several small internal service funds administered by various agencies.

COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
 JUNE 30, 2007
 (amounts expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES	ADMIN INSURANCE
ASSETS					
Current assets:					
Cash/cash equivalents	\$ 164	\$ 736	\$ 39,992	\$ 3,962	\$ 24,218
Receivables (net)	13	12	4,609	77	102
Interfund loans receivable	-	-	-	44	-
Due from other governments	1	-	-	-	-
Due from other funds	212	7	41	2,806	6
Due from component units	-	-	1	264	1
Inventories	-	1,627	-	-	-
Securities lending collateral	-	-	546	-	-
Other current assets	5	-	9	90	-
Total current assets	395	2,382	45,198	7,243	24,327
Noncurrent assets:					
Long-term investments	-	-	4,747	-	-
Capital assets:					
Land	-	-	-	-	-
Land improvements	-	-	-	-	-
Buildings/improvements	-	-	-	793	-
Equipment	10,300	124,339	-	41,782	-
Construction in progress	-	5,639	-	-	-
Intangible assets	26	-	129	909	88
Less accumulated depreciation	(4,086)	(67,656)	-	(37,137)	-
Total capital assets	6,240	62,322	129	6,347	88
Total noncurrent assets	6,240	62,322	4,876	6,347	88
Total assets	6,635	64,704	50,074	13,590	24,415
LIABILITIES					
Current liabilities:					
Accounts payable	342	912	2,544	1,650	418
Interfund loans payable	575	900	-	170	-
Due to other funds	3	1	6	93	48
Due to component units	-	-	-	14	55
Deferred revenue	-	-	923	85	-
Securities lending liability	-	-	546	-	-
Estimated insurance claims	-	-	10,940	-	3,186
Compensated absences payable	9	476	43	957	66
Total current liabilities	929	2,289	15,002	2,969	3,773
Noncurrent liabilities:					
Advances from other funds	-	-	-	-	-
Estimated insurance claims	-	-	1,568	-	11,935
Compensated absences payable	1	410	-	859	76
Total noncurrent liabilities	1	410	1,568	859	12,011
Total liabilities	930	2,699	16,570	3,828	15,784
NET ASSETS					
Invested in capital assets, net of related debt	6,240	62,323	129	6,347	88
Unrestricted	(535)	(318)	33,375	3,415	8,543
Total net assets	\$ 5,705	\$ 62,005	\$ 33,504	\$ 9,762	\$ 8,631

ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
\$ 215	\$ 95	\$ 223	\$ 617	\$ 218	\$ 805	\$ 327	\$ 727
68	-	41	-	-	-	-	-
225	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
177	337	669	96	-	80	66	428
7	5	61	-	-	22	11	1
379	23	113	-	-	-	-	-
-	-	-	-	-	-	-	-
7	-	321	-	1	17	-	-
1,078	460	1,428	713	219	924	404	1,156
-	-	-	-	-	-	-	-
-	236	-	-	-	-	-	-
-	-	-	95	-	-	-	-
-	-	-	32	-	-	-	-
115	17,059	1,637	450	-	306	7	-
-	-	-	-	-	-	-	-
-	-	83	-	-	-	3	-
(100)	(5,846)	(852)	(211)	-	(228)	(4)	-
15	11,449	868	366	-	78	6	-
15	11,449	868	366	-	78	6	-
1,093	11,909	2,296	1,079	219	1,002	410	1,156
222	255	182	345	44	264	69	155
-	-	-	-	-	-	-	-
3	2,608	15	1	3	42	4	51
-	-	-	-	-	-	-	-
-	-	-	23	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
24	24	67	85	40	290	79	118
249	2,887	264	454	87	596	152	324
-	7,812	-	-	-	-	-	-
-	-	-	-	-	-	-	-
39	16	65	35	70	224	108	34
39	7,828	65	35	70	224	108	34
288	10,715	329	489	157	820	260	358
15	11,449	868	366	-	79	6	-
790	(10,255)	1,099	224	62	103	144	798
\$ 805	\$ 1,194	\$ 1,967	\$ 590	\$ 62	\$ 182	\$ 150	\$ 798

(Continued on Next Page)

COMBINING STATEMENT OF NET ASSETS - Continued
INTERNAL SERVICE FUNDS

JUNE 30, 2007

(amounts expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION
ASSETS				
Current assets:				
Cash/cash equivalents	\$ 902	\$ 112	\$ -	\$ 768
Receivables (net)	1	-	-	-
Interfund loans receivable	-	-	-	-
Due from other governments	-	-	-	-
Due from other funds	261	-	59	26
Due from component units	7	-	17	28
Inventories	-	-	57	-
Securities lending collateral	-	-	-	-
Other current assets	34	-	-	72
Total current assets	1,205	112	133	894
Noncurrent assets:				
Long-term investments	-	-	-	-
Capital assets:				
Land	-	-	-	-
Land improvements	-	-	-	-
Buildings/improvements	-	-	-	-
Equipment	577	-	67	6
Construction in progress	-	-	-	-
Intangible assets	18	91	-	-
Less accumulated depreciation	(292)	-	(33)	(6)
Total capital assets	303	91	34	-
Total noncurrent assets	303	91	34	-
Total assets	1,508	203	167	894
LIABILITIES				
Current liabilities:				
Accounts payable	211	42	56	222
Interfund loans payable	-	-	-	-
Due to other funds	31	9	85	24
Due to component units	-	-	-	8
Deferred revenue	-	-	-	-
Securities lending liability	-	-	-	-
Estimated insurance claims	-	-	-	-
Compensated absences payable	219	39	7	151
Total current liabilities	461	90	148	405
Noncurrent liabilities:				
Advances from other funds	-	-	-	-
Estimated insurance claims	-	-	-	-
Compensated absences payable	149	35	5	159
Total noncurrent liabilities	149	35	5	159
Total liabilities	610	125	153	564
NET ASSETS				
Invested in capital assets, net of related debt	302	91	34	-
Unrestricted	596	(13)	(20)	330
Total net assets	\$ 898	\$ 78	\$ 14	\$ 330

AIRCRAFT OPERATION	JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	TOTAL
\$ 141	\$ 48	\$ 32	\$ 193	\$ 772	\$ 40	\$ 75,307
-	-	4	-	32	-	4,959
-	-	-	-	-	-	269
6	-	-	-	-	-	7
132	85	5	63	279	10	5,845
-	1	-	-	-	-	426
-	-	-	-	184	126	2,509
-	-	-	-	-	-	546
-	-	-	-	-	-	556
279	134	41	256	1,267	176	90,424
-	-	-	-	-	-	4,747
-	-	-	-	-	-	236
-	-	-	-	-	-	95
-	-	-	-	2,820	-	3,645
41	-	-	-	1,251	93	198,030
-	-	-	-	-	-	5,639
-	-	-	-	-	-	1,347
(28)	-	-	-	(1,156)	(66)	(117,701)
13	-	-	-	2,915	27	91,291
13	-	-	-	2,915	27	96,038
292	134	41	256	4,182	203	186,462
99	60	9	8	89	17	8,215
-	-	-	-	-	2	1,647
-	3	2	1	192	1	3,226
-	-	-	-	-	-	77
-	-	-	-	-	-	1,031
-	-	-	-	-	-	546
-	-	-	-	-	-	14,126
43	73	18	5	59	1	2,893
142	136	29	14	340	21	31,761
-	-	-	-	-	-	7,812
-	-	-	-	-	-	13,503
30	96	12	-	19	-	2,442
30	96	12	-	19	-	23,757
172	232	41	14	359	21	55,518
12	-	-	-	2,915	28	91,292
108	(98)	-	242	908	154	39,652
\$ 120	\$ (98)	\$ -	\$ 242	\$ 3,823	\$ 182	\$ 130,944

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

(amounts expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES	ADMIN INSURANCE
Operating revenues:					
Charges for services	\$ 2,304	\$ 24,633	\$ 129	\$ 38,460	\$ -
Investment earnings	-	-	2,002	-	1,267
Securities lending income	-	-	11	-	2
Contributions/premiums	-	-	106,576	-	13,974
Other operating revenues	-	142	1,056	105	-
Total operating revenues	2,304	24,775	109,774	38,565	15,243
Operating expenses:					
Personal services	111	6,752	632	12,667	862
Contractual services	85	646	4,970	6,119	4,791
Supplies/materials	1,151	6,115	96	1,857	33
Benefits/claims	-	-	96,110	-	2,701
Depreciation	599	5,897	-	2,400	-
Amortization	1	-	32	446	15
Utilities/rent	27	112	68	4,295	65
Communications	5	9	106	5,885	16
Travel	5	40	11	227	17
Repair/maintenance	702	3,324	9	2,001	1
Grants	-	-	-	-	117
Interest expense	-	-	-	8	-
Securities lending expense	-	-	11	-	1
Other operating expenses	(64)	169	491	958	104
Total operating expenses	2,622	23,064	102,536	36,863	8,723
Operating income (loss)	(318)	1,711	7,238	1,702	6,520
Nonoperating revenues (expenses):					
Insurance proceeds	-	-	-	-	376
Gain (loss) on sale of capital assets	(228)	(53)	-	-	-
Federal indirect cost recoveries	-	-	-	-	-
Total nonoperating revenues (expenses)	(228)	(53)	-	-	376
Income (loss) before contributions and transfers	(546)	1,658	7,238	1,702	6,896
Capital contributions	273	1,177	-	-	-
Transfers in	30	-	144	-	104
Transfers out	(215)	-	(410)	-	-
Change in net assets	(458)	2,835	6,972	1,702	7,000
Total net assets - July 1 - as previously reported	6,170	59,416	26,527	8,048	1,631
Prior period adjustments	(7)	(246)	5	12	-
Total net assets - July 1 - as restated	6,163	59,170	26,532	8,060	1,631
Total net assets - June 30	\$ 5,705	\$ 62,005	33,504	\$ 9,762	\$ 8,631

ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
\$ 4,937	\$ 3,951	\$ 10,219	\$ 7,247	\$ 882	\$ 4,874	\$ 25	\$ 995
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	3	-	-	-	-	1,061	6
4,937	3,954	10,219	7,247	882	4,874	1,086	1,001
378	326	1,269	1,343	757	4,520	1,105	1,162
44	405	114	2,813	42	494	28	329
4,321	1,628	4,909	146	8	189	47	81
-	-	-	-	-	-	-	-
2	1,889	174	30	-	19	1	-
-	-	2	-	-	-	2	-
99	82	179	2,451	33	367	88	216
19	3	3,023	22	11	65	14	82
-	1	5	1	3	22	12	8
7	244	435	996	3	45	2	16
-	-	-	139	-	-	-	-
-	387	-	-	-	-	-	-
-	-	-	-	-	-	-	-
34	5	66	144	11	360	6	8
4,904	4,970	10,176	8,085	868	6,081	1,305	1,902
33	(1,016)	43	(838)	14	(1,207)	(219)	(901)
-	-	-	-	-	-	-	-
-	(221)	(23)	3	-	8	(3)	-
-	-	-	-	-	1,227	187	1,297
-	(221)	(23)	3	-	1,235	184	1,297
33	(1,237)	20	(835)	14	28	(35)	396
-	-	-	-	-	-	-	-
-	1,330	-	500	-	-	-	-
-	-	-	-	-	-	-	(1)
33	93	20	(335)	14	28	(35)	395
772	1,102	1,947	765	48	154	185	403
-	(1)	-	160	-	-	-	-
772	1,101	1,947	925	48	154	185	403
\$ 805	\$ 1,194	\$ 1,967	\$ 590	\$ 62	\$ 182	\$ 150	\$ 798

(Continued on Next Page)

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - Continued
INTERNAL SERVICE FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

(amounts expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION
Operating revenues:				
Charges for services	\$ 2,738	\$ 453	\$ 812	\$ 3,179
Investment earnings	-	-	-	-
Securities lending income	-	-	-	-
Contributions/premiums	(97)	-	-	-
Other operating revenues	4	-	-	-
Total operating revenues	2,645	453	812	3,179
Operating expenses:				
Personal services	3,102	743	208	2,252
Contractual services	709	112	197	1,001
Supplies/materials	137	14	(49)	29
Benefits/claims	-	-	-	-
Depreciation	72	-	1	-
Amortization	5	21	-	-
Utilities/rent	214	28	13	148
Communications	45	15	429	44
Travel	37	2	-	33
Repair/maintenance	82	2	11	2
Grants	-	-	-	-
Interest expense	-	-	-	-
Securities lending expense	-	-	-	-
Other operating expenses	164	9	61	452
Total operating expenses	4,567	946	871	3,961
Operating income (loss)	(1,922)	(493)	(59)	(782)
Nonoperating revenues (expenses):				
Insurance proceeds	-	-	-	-
Gain (loss) on sale of capital assets	(2)	-	-	(1)
Federal indirect cost recoveries	1,713	-	-	-
Total nonoperating revenues (expenses)	1,711	-	-	(1)
Income (loss) before contributions and transfers	(211)	(493)	(59)	(783)
Capital contributions	-	-	-	-
Transfers in	-	407	-	900
Transfers out	(9)	-	-	(1)
Change in net assets	(220)	(86)	(59)	116
Total net assets - July 1 - as previously reported	1,156	165	73	214
Prior period adjustments (Note 3)	(38)	(1)	-	-
Total net assets - July 1 - as restated	1,118	164	73	214
Total net assets - June 30	\$ 898	\$ 78	\$ 14	\$ 330

AIRCRAFT OPERATION	JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	TOTAL
\$ 976	\$ 1,336	\$ 263	\$ 140	\$ 3,523	\$ 196	\$ 112,272
-	-	-	-	-	-	3,269
-	-	-	-	-	-	13
-	-	-	-	-	-	120,453
1	-	-	-	-	18	2,396
977	1,336	263	140	3,523	214	238,403
791	1,043	172	31	1,047	95	41,368
77	233	28	7	8	12	23,264
348	20	19	1	2,151	99	23,350
-	-	-	-	-	-	98,811
3	-	-	-	208	8	11,303
-	-	-	-	-	-	524
118	61	25	2	115	8	8,814
8	16	6	5	2	2	9,832
27	8	10	-	-	1	470
466	4	1	-	49	17	8,419
-	-	-	-	-	-	256
-	-	-	-	-	-	395
-	-	-	-	-	-	12
5	9	5	-	5	3	3,005
1,843	1,394	266	46	3,585	245	229,823
(866)	(58)	(3)	94	(62)	(31)	8,580
-	-	-	-	-	-	376
-	-	-	-	-	-	(520)
-	-	-	-	-	-	4,424
-	-	-	-	-	-	4,280
(866)	(58)	(3)	94	(62)	(31)	12,860
-	-	-	-	-	-	1,450
811	-	-	-	-	-	4,226
-	-	-	-	-	-	(636)
(55)	(58)	(3)	94	(62)	(31)	17,900
175	(40)	3	148	3,885	213	113,160
-	-	-	-	-	-	(116)
175	(40)	3	148	3,885	213	113,044
\$ 120	\$ (98)	\$ -	\$ 242	\$ 3,823	\$ 182	\$ 130,944

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

(amounts expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES	ADMIN INSURANCE
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from sales and services	\$ 2,316	\$ 24,775	\$ 105,823	\$ 38,536	\$ 13,841
Payments to suppliers for goods and services	(1,742)	(10,526)	(6,050)	(19,176)	(5,308)
Payments to employees	(92)	(7,084)	(635)	(10,973)	14,254
Grant receipts	-	-	-	-	-
Cash payments for claims	-	-	(95,914)	-	(18,796)
Other operating revenues	-	-	1,568	116	-
Net cash provided by (used for) operating activities	482	7,165	4,792	8,503	3,991
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Payment of principal and interest on bonds and notes	-	-	-	-	-
Transfers to other funds	(215)	-	(410)	-	(118)
Transfers from other funds	30	-	105	-	104
Proceeds from interfund loans/advances	575	900	5	-	-
Payment of interfund loans/advances	(300)	(2,000)	-	24	-
Net cash provided by (used for) noncapital financing activities	90	(1,100)	(300)	24	(14)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	-	-	-	-	378
Acquisition of capital assets	(602)	(5,943)	(92)	(7,974)	(51)
Proceeds from sale of capital assets	-	-	-	-	-
Principal and interest payments on bonds and notes	-	-	-	(16)	-
Net cash used for capital and related financing activities	(602)	(5,943)	(92)	(7,990)	327
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales or maturities of investments	-	-	13,959	-	-
Proceeds from securities lending transactions	-	-	11	-	291
Interest and dividends on investments	-	-	2,064	-	1,267
Payment of securities lending costs	-	-	(11)	-	(290)
Net cash provided by (used for) investing activities	-	-	16,023	-	1,268
Net increase (decrease) in cash and cash equivalents	(30)	122	20,423	537	5,572
Cash and cash equivalents, July 1	194	614	19,569	3,425	18,646
Cash and cash equivalents, June 30	\$ 164	\$ 736	\$ 39,992	\$ 3,962	\$ 24,218

ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
\$ 4,479 (3,980) (373) -	\$ 3,845 (2,439) (336) -	\$ 10,322 (9,115) (1,110) -	\$ 7,264 (6,588) (1,321) -	\$ 882 (116) (744) -	\$ 5,445 (1,720) (5,014) 1,252	\$ 25 (258) (1,071) 189	\$ 940 (717) (1,042) 1,131
-	-	-	-	-	-	-	-
-	3	-	-	-	-	1,118	6
126	1,073	97	(645)	22	(37)	3	318
-	(387)	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	1,330	-	500	-	-	-	-
(225)	(7,753)	-	-	-	-	-	-
225	8,099	-	5	-	-	50	-
-	1,289	-	505	-	-	50	-
-	-	-	-	-	-	-	-
-	(2,845)	(112)	(183)	-	(25)	-	-
-	315	(22)	-	-	1	-	-
-	-	-	-	-	-	-	-
-	(2,530)	(134)	(183)	-	(24)	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
126	(168)	(37)	(323)	22	(61)	53	318
89	263	260	940	196	866	274	409
\$ 215	\$ 95	\$ 223	\$ 617	\$ 218	\$ 805	\$ 327	\$ 727

(Continued on Next Page)

COMBINING STATEMENT OF CASH FLOWS - Continued
INTERNAL SERVICE FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

(amounts expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from sales and services	\$ 2,516	\$ 453	\$ 828	\$ 3,192
Payments to suppliers for goods and services	(1,386)	(189)	(675)	(1,785)
Payments to employees	(2,919)	(700)	(196)	(2,097)
Grant receipts	1,707	-	-	-
Cash payments for claims	-	-	-	-
Other operating revenues	4	-	-	-
Net cash provided by (used for) operating activities	(78)	(436)	(43)	(690)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Payment of principal and interest on bonds and notes	-	-	-	-
Transfers to other funds	-	-	-	(1)
Transfers from other funds	(9)	407	-	900
Proceeds from interfund loans/advances	-	-	-	-
Payment of interfund loans/advances	-	-	-	-
Net cash provided by (used for) noncapital financing activities	(9)	407	-	899
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from insurance	-	-	-	-
Acquisition of capital assets	(290)	(33)	(33)	-
Proceeds from sale of capital assets	-	-	-	-
Principal and interest payments on bonds and notes	-	-	-	-
Net cash used for capital and related financing activities	(290)	(33)	(33)	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales or maturities of investments	-	-	-	-
Proceeds from securities lending transactions	-	-	-	-
Interest and dividends on investments	-	-	-	-
Payment of securities lending costs	-	-	-	-
Net cash provided by (used for) investing activities	-	-	-	-
Net increase (decrease) in cash and cash equivalents	(377)	(62)	(76)	209
Cash and cash equivalents, July 1	1,279	174	76	559
Cash and cash equivalents, June 30	\$ 902	\$ 112	\$ -	\$ 768

AIRCRAFT OPERATION	JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	TOTAL
\$ 870	\$ 1,354	\$ 260	\$ 140	\$ 3,529	\$ 190	\$ 231,825
(1,133)	(341)	(97)	(7)	(2,429)	(170)	(75,947)
(734)	(1,013)	(174)	(80)	(1,025)	(82)	(24,561)
-	-	-	-	-	-	4,279
-	-	-	-	-	-	(114,710)
1	-	-	-	-	18	2,834
(996)	-	(11)	53	75	(44)	23,720
-	-	-	-	-	-	(387)
-	-	-	-	-	-	(744)
810	-	-	-	-	-	4,177
-	-	-	-	-	-	(6,498)
-	-	-	-	-	-	6,103
810	-	-	-	-	-	2,651
-	-	-	-	-	-	378
-	-	-	-	-	-	(18,183)
-	-	-	-	-	-	294
-	-	-	-	-	-	(16)
-	-	-	-	-	-	(17,527)
-	-	-	-	-	-	13,959
-	-	-	-	-	-	302
-	-	-	-	-	-	3,331
-	-	-	-	-	-	(301)
-	-	-	-	-	-	17,291
(186)	-	(11)	53	75	(44)	26,135
327	48	43	140	697	84	49,172
\$ 141	\$ 48	\$ 32	\$ 193	\$ 772	\$ 40	\$ 75,307

(Continued on Next Page)

COMBINING STATEMENT OF CASH FLOWS - Continued
INTERNAL SERVICE FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

(amounts expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES	ADMIN INSURANCE
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	\$ (318)	\$ 1,711	\$ 7,238	\$ 1,702	\$ 6,520
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:					
Depreciation	599	5,897	-	2,400	-
Amortization	1	-	32	446	15
Interest expense	-	-	-	8	-
Securities lending expense	-	-	11	-	1
Investment earnings	-	-	(2,002)	-	(1,267)
Securities lending income	-	-	(11)	-	(2)
Federal indirect cost recoveries	-	-	-	-	-
Change in assets and liabilities:					
Decr (incr) in accounts receivable	-	(5)	(307)	(9)	(102)
Decr (incr) in due from other funds	39	4	(29)	308	111
Decr (incr) in due from component units	-	-	(1)	69	(1)
Decr (incr) in due from other governments	-	-	-	-	-
Decr (incr) in inventories	-	(276)	4	-	-
Decr (incr) in other assets	-	-	(16)	3,679	-
Incr (decr) in accounts payable	157	(212)	203	(340)	(165)
Incr (decr) in due to other funds	(1)	(1)	(304)	41	(47)
Incr (decr) in due to component units	-	(3)	-	4	21
Incr (decr) in deferred revenue	-	-	(2)	-	-
Incr (decr) in amounts held in custody for others	-	-	-	-	-
Incr (decr) in compensated absences payable	5	50	(15)	195	4
Incr (decr) in estimated claims	-	-	(9)	-	(1,097)
Net cash provided by (used for) operating activities	\$ 482	\$ 7,165	\$ 4,792	\$ 8,503	\$ 3,991
Schedule of noncash transactions:					
Capital contributions from other funds	\$ -	\$ 1,177	\$ -	\$ -	\$ -
Total noncash transactions	\$ -	\$ 1,177	\$ -	\$ -	\$ -

ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
\$ 33	\$ (1,016)	\$ 43	\$ (838)	\$ 14	\$ (1,207)	\$ (219)	\$ (901)
2	1,886	174	30	-	19	1	-
-	-	2	-	-	-	2	-
-	387	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	1,227	187	1,297
141	-	(27)	9	-	-	-	-
(45)	(11)	160	12	-	67	(3)	(218)
12	(4)	(29)	4	-	(6)	(1)	(1)
-	1	-	-	-	-	-	-
25	2	113	-	-	-	-	-
-	(404)	(85)	9	-	-	-	-
(46)	(62)	(226)	16	6	(140)	12	102
(1)	288	(51)	153	(3)	(13)	(2)	23
-	-	-	-	-	-	-	-
-	-	-	(25)	-	-	-	-
-	-	-	(3)	-	-	-	-
5	6	23	(12)	5	16	26	16
-	-	-	-	-	-	-	-
\$ 126	\$ 1,073	\$ 97	\$ (645)	\$ 22	\$ (37)	\$ 3	\$ 318
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

(Continued on Next Page)

COMBINING STATEMENT OF CASH FLOWS - Continued
INTERNAL SERVICE FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

(amounts expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$ (1,922)	\$ (493)	\$ (59)	\$ (782)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:				
Depreciation	72	-	1	-
Amortization	5	21	-	-
Interest expense	-	-	-	-
Securities lending expense	-	-	-	-
Investment earnings	-	-	-	-
Securities lending income	-	-	-	-
Federal indirect cost recoveries	1,713	-	-	-
Change in assets and liabilities:				
Decr (incr) in accounts receivable	1	-	-	-
Decr (incr) in due from other funds	32	-	6	11
Decr (incr) in due from component units	(1)	-	11	2
Decr (incr) in due from other governments	-	-	-	-
Decr (incr) in inventories	-	-	(57)	-
Decr (incr) in other assets	10	-	-	(10)
Incr (decr) in accounts payable	33	(6)	42	40
Incr (decr) in due to other funds	(32)	4	15	-
Incr (decr) in due to component units	-	(1)	-	2
Incr (decr) in deferred revenue	-	-	-	-
Incr (decr) in amounts held in custody for others	-	-	-	-
Incr (decr) in compensated absences payable	11	39	(2)	47
Incr (decr) in estimated claims	-	-	-	-
Net cash provided by (used for) operating activities	\$ (78)	\$ (436)	\$ (43)	\$ (690)
Schedule of noncash transactions:				
Capital contributions from other funds	\$ -	\$ -	\$ -	\$ -
Total noncash transactions	\$ -	\$ -	\$ -	\$ -

AIRCRAFT OPERATION	JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	TOTAL
\$ (866)	\$ (58)	\$ (3)	\$ 94	\$ (62)	\$ (31)	\$ 8,580
3	-	-	-	208	8	11,300
-	-	-	-	-	-	524
-	-	-	-	-	-	395
-	-	-	-	-	-	12
-	-	-	-	-	-	(3,269)
-	-	-	-	-	-	(13)
-	-	-	-	-	-	4,424
7	-	(3)	-	(11)	-	(306)
(106)	30	(1)	(41)	17	(5)	338
-	-	1	-	-	-	55
(7)	-	-	-	-	-	(6)
-	-	-	-	(61)	(17)	(267)
-	-	-	-	(60)	-	3,123
(32)	4	(3)	-	9	3	(605)
-	(3)	-	(1)	21	-	86
-	-	-	-	-	-	23
-	-	-	-	-	-	(27)
-	-	-	-	-	-	(3)
5	27	(2)	1	14	(2)	462
-	-	-	-	-	-	(1,106)
\$ (996)	\$ -	\$ (11)	\$ 53	\$ 75	\$ (44)	\$ 23,720
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,177
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,177

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PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS

These funds provide retirement, disability, death, and lump-sum payments to retirement system members. A brief description of each fund follows:

Public Employee Retirement System - Defined Benefit Retirement Plan – This fund provides retirement benefits to substantially all public employees not covered by another public system.

Municipal Police Officers Retirement System – This fund provides retirement benefits to all municipal police officers covered by the plan.

Firefighters Unified Retirement System – This fund provides retirement benefits for firefighters employed by first and second- class cities and other cities that wish to adopt the plan.

Sheriffs Retirement System – This fund provides retirement benefits for sheriffs and State Department of Justice investigators.

Highway Patrol Officers Retirement System – This fund provides retirement benefits for all members of the Montana Highway Patrol.

Judges Retirement System – This fund provides retirement benefits for all district court judges, justices of the Supreme Court, and the Chief Water Judge.

Game Wardens & Peace Officers Retirement System – This fund provides retirement benefits for all persons employed as game wardens, supervisory personnel, and state peace officers.

Volunteer Firefighters Compensation Act – This fund provides medical benefits and pension, disability, and death benefits for all volunteer firefighters who are members of eligible volunteer fire companies in unincorporated areas of the State.

Public Employee Retirement System - Defined Contribution Retirement Plan – Members of the defined contribution retirement plan decide how to invest their contributions and a portion of their employer contributions in the available investment options.

Public Employee 457 Plan – All employees of the State, Montana University System, and contracting political subdivisions are eligible to participate in this plan. The 457 plan is a voluntary, tax-deferred retirement plan designed to supplement state service retirement, Social Security, and other retirement plans and savings.

Teachers Retirement System – This fund provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the university system.

Voluntary Employee Benefit Association – This fund provides members with individual health care expense trust accounts to pay the qualified health care expenses of members and their dependents and beneficiaries.

**COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS**

JUNE 30, 2007

(amounts expressed in thousands)

	PUBLIC EMPLOYEES RETIREMENT BOARD (PERB)					
	PUBLIC EMPLOYEES DEFINED BENEFIT	MUNICIPAL POLICE	FIRE- FIGHTERS UNIFIED	SHERIFFS	HIGHWAY PATROL	JUDGES
ASSETS						
Cash/cash equivalents	\$ 112,342	\$ 4,433	\$ 4,504	\$ 5,701	\$ 2,795	\$ 1,780
Receivables (net):						
Accounts receivable	1,164	105	84	129	-	-
Interest	7,994	390	370	378	198	120
Due from primary government	151	8,677	7,957	-	-	-
Due from other PERB plans	335	-	-	27	-	-
Long-term notes/loans receivable	85	-	-	-	-	-
Total receivables	9,729	9,172	8,411	534	198	120
Investments at fair value:						
Equity in pooled investments	3,936,420	197,708	188,022	190,690	99,833	60,036
Other investments	45,677	-	-	-	-	-
Total investments	3,982,097	197,708	188,022	190,690	99,833	60,036
Securities lending collateral	202,100	10,097	9,607	9,737	5,113	3,070
Capital assets:						
Land	-	-	-	-	-	-
Buildings/improvements	-	-	-	-	-	-
Equipment	5	-	-	-	-	-
Accumulated depreciation	(5)	-	-	-	-	-
Intangible assets	213	2	2	3	2	2
Total capital assets	213	2	2	3	2	2
Other assets	-	-	-	-	-	-
Total assets	4,306,481	221,412	210,546	206,665	107,941	65,008
LIABILITIES						
Accounts payable	399	6	2	5	-	-
Due to primary government	78	-	-	-	-	-
Due to other PERB plans	163	66	55	76	27	7
Deferred revenue	68	-	4	-	-	-
Securities lending liability	202,100	10,097	9,607	9,737	5,113	3,070
Compensated absences payable	237	1	-	-	-	-
Total liabilities	203,045	10,170	9,668	9,818	5,140	3,077
NET ASSETS						
Held in trust for pension benefits and other purposes	\$ 4,103,436	\$ 211,242	\$ 200,878	\$ 196,847	\$ 102,801	\$ 61,931

PUBLIC EMPLOYEES RETIREMENT BOARD (PERB)								
GAME WARDENS/ PEACE OFFICERS	VOLUNTEER FIRE- FIGHTERS	PUBLIC EMPLOYEES DEFINED CONTRIBUTION	PUBLIC EMPLOYEES 457 PLAN	TEACHERS RETIREMENT SYSTEM	VOLUNTARY EMPLOYEE BENEFIT ASSOCIATION	TOTAL		
\$ 2,551	\$ 2,204	\$ 1,454	\$ 472	\$ 88,436	\$ 550	\$	\$	227,222
-	-	-	2	15,159	39			16,682
142	50	6	2	6,215	-			15,865
-	-	-	-	170	-			16,955
-	-	136	-	-	-			498
-	-	-	-	-	-			85
142	50	142	4	21,544	39			50,085
70,659	25,298	-	-	3,059,618	-			7,828,284
-	-	40,420	288,538	39,637	840			415,112
70,659	25,298	40,420	288,538	3,099,255	840			8,243,396
3,619	1,302	-	-	157,025	-			401,670
-	-	-	-	35	-			35
-	-	-	-	158	-			158
-	-	-	-	147	-			152
-	-	-	-	(271)	-			(276)
3	2	3	56	246	-			534
3	2	3	56	315	-			603
-	-	-	-	10	65			75
76,974	28,856	42,019	289,070	3,366,585	1,494			8,923,051
2	-	8	164	128	-			714
-	-	2	1	17	-			98
46	49	7	2	-	-			498
-	-	-	-	-	-			72
3,619	1,302	-	-	157,025	-			401,670
-	-	14	14	140	-			406
3,667	1,351	31	181	157,310	-			403,458
\$ 73,307	\$ 27,505	\$ 41,988	\$ 288,889	\$ 3,209,275	\$ 1,494	\$	\$	8,519,593

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2007
 (amounts expressed in thousands)

	PUBLIC EMPLOYEES RETIREMENT BOARD (PERB)					
	PUBLIC EMPLOYEES DEFINED BENEFIT	MUNICIPAL POLICE	FIRE- FIGHTERS UNIFIED	SHERIFFS	HIGHWAY PATROL	JUDGES
ADDITIONS						
Contributions/premiums:						
Employer	\$ 66,901	\$ 4,283	\$ 3,520	\$ 4,386	\$ 3,634	\$ 1,249
Employee	69,053	2,709	2,619	4,849	988	339
Other contributions	835	8,677	7,957	72	302	-
Net investment earnings:						
Investment earnings	639,218	31,554	30,026	30,182	16,117	9,579
Administrative investment expense	(10,056)	(493)	(468)	(469)	(252)	(149)
Securities lending income	7,545	375	358	361	194	115
Securities lending expense	(7,148)	(355)	(339)	(342)	(184)	(109)
Charges for services	-	-	-	-	-	-
Other additions	2	-	-	-	-	-
Payment from State of Montana	-	-	-	-	-	-
Total additions	766,350	46,750	43,673	39,039	20,799	11,024
DEDUCTIONS						
Benefits	166,188	12,694	11,853	6,768	6,460	1,772
Refunds	13,556	717	241	1,014	278	-
Administrative expenses:						
Personal services	1,431	3	-	-	-	-
Contractual services	805	1	1	1	1	1
Supplies/materials	48	-	-	-	-	-
Depreciation	-	-	-	-	-	-
Amortization	31	-	-	1	-	-
Utilities/rent	191	-	-	-	-	-
Communications	134	-	-	-	-	-
Travel	41	-	-	-	-	-
Repair/maintenance	1	-	-	-	-	-
Interest expense	-	-	-	-	-	-
Other operating expenses	-	67	55	76	27	7
Local assistance	-	-	-	-	-	-
Gain (loss) on sale of capital assets	-	-	-	-	-	-
Transfers to ORP	211	-	-	-	-	-
Transfers to PERS-DCRP	1,209	-	-	-	-	-
Total deductions	183,846	13,482	12,150	7,860	6,766	1,780
Change in net assets	582,504	33,268	31,523	31,179	14,033	9,244
Net assets - July 1 - as previously reported	3,520,983	177,974	169,355	165,668	88,768	52,687
Prior period adjustments	(51)	-	-	-	-	-
Net assets - July 1 - as restated	3,520,932	177,974	169,355	165,668	88,768	52,687
Net assets - June 30	\$ 4,103,436	\$ 211,242	\$ 200,878	\$ 196,847	\$ 102,801	\$ 61,931

PUBLIC EMPLOYEES RETIREMENT BOARD (PERB)						
GAME WARDENS/ PEACE OFFICERS	VOLUNTEER FIRE- FIGHTERS	PUBLIC EMPLOYEES DEFINED CONTRIBUTION	PUBLIC EMPLOYEES 457 PLAN	TEACHERS RETIREMENT SYSTEM	VOLUNTARY EMPLOYEE BENEFIT ASSOCIATION	TOTAL
\$ 2,638	\$ -	\$ 2,857	\$ 74	\$ 61,944	\$ 823	\$ 152,309
3,190	-	4,394	17,712	56,509	-	162,362
9	1,661	-	-	720	-	20,233
11,003	4,166	5,415	37,603	491,842	275	1,306,980
(172)	(65)	-	(501)	(7,616)	-	(20,241)
132	50	-	-	5,816	-	14,946
(125)	(47)	-	-	(5,510)	-	(14,159)
-	-	203	277	-	-	480
-	-	315	-	16	-	333
-	-	1,375	-	50,000	-	51,375
16,675	5,765	14,559	55,165	653,721	1,098	1,674,618
2,083	1,638	2,632	14,693	182,827	451	410,059
701	-	-	-	5,596	-	22,103
-	-	125	115	898	1	2,573
1	-	325	819	232	(5)	2,182
-	-	3	2	25	-	78
-	-	-	-	5	-	5
1	1	1	49	79	-	163
-	-	12	11	48	-	262
-	-	3	4	33	-	174
-	-	3	3	22	-	69
-	-	-	-	42	-	43
-	-	56	-	-	-	56
46	49	8	3	49	21	408
-	13	-	-	-	-	13
-	-	-	-	502	-	502
-	-	-	-	-	-	211
-	-	-	-	-	-	1,209
2,832	1,701	3,168	15,699	190,358	468	440,110
13,843	4,064	11,391	39,466	463,363	630	1,234,508
59,464	23,441	30,620	248,226	2,745,771	869	7,283,826
-	-	(23)	1,197	141	(5)	1,259
59,464	23,441	30,597	249,423	2,745,912	864	7,285,085
\$ 73,307	\$ 27,505	\$ 41,988	\$ 288,889	\$ 3,209,275	\$ 1,494	\$ 8,519,593

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PRIVATE-PURPOSE TRUST FUNDS

Private-purpose trust funds are used to account for assets held by the State in a trustee capacity, where both the trust principal and earnings benefit individuals, private organizations, or other governments. A brief description of each private-purpose trust fund follows:

College Savings Plan – This fund accounts for monies contributed towards a “qualified tuition program” under section 529 of the Internal Revenue Code of 1986, as amended. This plan is a voluntary college savings plan whose participants are both Montana residents and out-of-state individuals.

Escheated Property – This fund accounts for property that has reverted to the State due to the absence of legal claimants or heirs and is held in trust for distribution to these heirs when identified.

Plan 1 Securities – This fund accounts for the unliquidated security bonds held on deposit from self-insured employers. These funds either revert to the employer at a later date or are cashed and assumed by the State to be used on the employee’s behalf.

Woodville Highway Replacement – This fund accounts for money paid to the Montana Department of Transportation by the Anaconda Company to provide the government of Butte-Silver Bow with traffic facilities. This money is held on deposit for the city/county government and is distributed to them at their request.

Moore-Sipple Connector – Money is held in trust to ensure the continued operation of the Moore-Sipple Connector. The balance in this fund reverts to the railroad company if the line is in operation until 2010. As the result of a court order, until this date is reached, the interest earnings on this money are provided to Central Montana Rail, Inc. for use in operating the railroad.

Environmental Reclamation – This fund accounts for environmental reclamation bonds held in trust to be either returned to the company upon successful reclamation of mining properties and related impacts or to be used by the State to complete the related reclamation process.

COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PRIVATE-PURPOSE TRUST FUNDS

JUNE 30, 2007

(amounts expressed in thousands)

	COLLEGE SAVINGS PLAN	ESCHEATED PROPERTY	PLAN 1 SECURITIES	WOODVILLE HIGHWAY REPLACEMENT
ASSETS				
Cash/cash equivalents	\$ 117,117	\$ 914	\$ -	\$ 45
Receivables (net):				
Interest	-	4	-	-
Total receivables	-	4	-	-
Investments at fair value:				
Other investments	88,441	-	-	-
Total investments	88,441	-	-	-
Other assets	-	-	5,169	-
Total assets	205,558	918	5,169	45
LIABILITIES				
Accounts payable	-	2	-	-
Total liabilities	-	2	-	-
NET ASSETS				
Held in trust for other purposes	\$ 205,558	\$ 916	\$ 5,169	\$ 45

MOORE-SIPPLE CONNECTOR		ENVIRONMENTAL RECLAMATION		TOTAL
\$	241	\$	3,390	\$ 121,707
	1		3	8
	1		3	8
	-		-	88,441
	-		-	88,441
	-		2,761	7,930
	242		6,154	218,086
	-		3	5
	-		3	5
\$	242	\$	6,151	\$ 218,081

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE-PURPOSE TRUST FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

(amounts expressed in thousands)

	COLLEGE SAVINGS PLAN	ESCHEATED PROPERTY	PLAN 1 SECURITIES	WOODVILLE HIGHWAY REPLACEMENT
ADDITIONS				
Participant contributions	\$ 35,047	\$ -	\$ -	\$ -
Net investment earnings:				
Investment earnings	5,088	38	-	3
Other additions	-	2,457	-	-
Total additions	40,135	2,495	-	3
DEDUCTIONS				
Distributions	16,920	2,295	-	-
Administrative expenses:				
Grants	-	-	-	-
Contractual services	545	-	-	-
Total deductions	17,465	2,295	-	-
Change in net assets	22,670	200	-	3
Net assets - July 1 - as previously reported	-	716	5,169	42
Prior period adjustments	182,888	-	-	-
Net assets - July 1 - as restated	182,888	716	5,169	42
Net assets - June 30	\$ 205,558	\$ 916	\$ 5,169	\$ 45

MOORE-SIPPLE CONNECTOR		ENVIRONMENTAL RECLAMATION	TOTAL
\$	-	\$	-
	13	41	5,183
	-	2,650	5,107
	13	2,691	45,337
	-	812	20,027
	13	-	13
	-	-	545
	13	812	20,585
	-	1,879	24,752
	242	4,272	10,441
	-	-	182,888
	242	4,272	193,329
\$	242	\$	6,151
		\$	218,081

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AGENCY FUNDS

Agency funds are used to account for assets held by the State as an agent for individuals, private organizations, and other governments. A brief description of each agency fund follows:

Performance Deposits – This fund accounts for deposits held by the State pending compliance with performance agreements.

Central Payroll – This fund accounts for the accumulation of state employee payroll and withholding by the Department of Administration, pending remittance to employees and other appropriate third parties.

Criminal Offender Restitution – Accounts for restitution payments received from prisoners and disbursed to their victims.

Custodial Accounts – This fund accounts for monies belonging to state institution residents, students of the School for the Deaf and Blind, and participants in the foster children and protective services programs. The fund also accounts for balances held by the Office of the Commissioner of Higher Education for remittance, on behalf of eligible employees of the Montana University System, to the TIAA-CREF (Teachers Insurance and Annuity Association-College Retirement Equities Fund) retirement fund. Department of Transportation employee union pension monies are held in this fund, awaiting remittance to the corresponding union. This fund also accounts for wages collected from employers on behalf of employee wage complaints filed under authority of the Montana Wages and Wage Protection Act.

Child Support Collections – This fund accounts for payments from parents under the Child Support Enforcement Program administered by the Department of Public Health and Human Services.

Uncleared Collections – This fund accounts for resources held pending distribution to other funds and local governments. The balances in this fund related to other fund types are distributed to those funds each fiscal year-end. Balances remaining relate to external parties.

Intergovernmental – This fund accounts for resources that flow through state agencies to federal and local governments.

Debt Collection – This fund accounts for amounts due to the State which have been written off as uncollectible by the receiving agency. The Department of Revenue continues to attempt to collect amounts owing for a period of time after they are deemed uncollectible by the receiving agency.

Milk Passthrough – This fund accounts for the distribution of the proceeds from the sale of pooled milk.

COMBINING STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS

JUNE 30, 2007

(amounts amounts expressed in thousands)

	PERFORMANCE DEPOSITS	CENTRAL PAYROLL	CRIMINAL OFFENDER RESTITUTION	CUSTODIAL ACCOUNTS	CHILD SUPPORT COLLECTIONS
ASSETS					
Cash/cash equivalents	\$ 2,078	\$ 1,863	\$ 183	\$ 1,439	\$ 841
Receivables (net):					
Accounts receivable	-	-	-	15	286
Interest receivable	-	-	-	1	-
Total receivables	-	-	-	16	286
Other assets	12,374	-	-	-	-
Total assets	14,452	1,863	183	1,455	1,127
LIABILITIES					
Accounts payable	26	-	19	49	86
Amounts held in custody for others	14,426	1,863	164	1,406	1,041
Total liabilities	14,452	1,863	183	1,455	1,127
NET ASSETS					
Held in trust for pension benefits and other purposes	\$ -	\$ -	\$ -	\$ -	\$ -

UNCLEARED COLLECTIONS	INTER- GOVERNMENTAL	DEBT COLLECTION	MILK PASS- THROUGH	TOTAL
\$ 382	\$ 150	\$ 108	\$ 4	\$ 7,048
-	-	14	-	315
-	-	-	-	1
-	-	14	-	316
-	-	-	-	12,374
382	150	122	4	19,738
331	108	-	-	619
51	42	122	4	19,119
382	150	122	4	19,738
\$ -	\$ -	\$ -	\$ -	\$ -

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

(amounts expressed in thousands)

FUND	BALANCE JUNE 30, 2006	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2007
PERFORMANCE DEPOSITS:				
ASSETS				
Cash/cash equivalents	\$ 2,556	\$ 108,173	\$ 108,651	\$ 2,078
Receivables (net)	-	67	67	-
Other assets	10,592	2,019	237	12,374
Total assets	\$ 13,148	\$ 110,259	\$ 108,955	\$ 14,452
LIABILITIES				
Accounts payable	\$ 110	\$ 2,296	\$ 2,380	\$ 26
Amounts held in custody for others	13,038	8,699	7,311	14,426
Total liabilities	\$ 13,148	\$ 10,995	\$ 9,691	\$ 14,452
CENTRAL PAYROLL:				
ASSETS				
Cash/cash equivalents	\$ 263	\$ 715,457	\$ 713,857	\$ 1,863
Receivables (net)	1	-	1	-
Total assets	\$ 264	\$ 715,457	\$ 713,858	\$ 1,863
LIABILITIES				
Accounts payable	\$ -	\$ 11,112	\$ 11,112	\$ -
Amounts held in custody for others	264	715,886	714,287	1,863
Total liabilities	\$ 264	\$ 726,998	\$ 725,399	\$ 1,863
CRIMINAL OFFENDER RESTITUTION:				
ASSETS				
Cash/cash equivalents	\$ 303	\$ 4,226	\$ 4,346	\$ 183
Total assets	\$ 303	\$ 4,226	\$ 4,346	\$ 183
LIABILITIES				
Accounts payable	\$ 2	4,230	4,213	19
Amounts held in custody for others	301	4,226	4,363	164
Total liabilities	\$ 303	\$ 8,456	\$ 8,576	\$ 183
CUSTODIAL ACCOUNTS:				
ASSETS				
Cash/cash equivalents	\$ 1,269	\$ 5,831	\$ 5,661	\$ 1,439
Receivables (net)	28	44	56	16
Securities lending collateral	2	-	2	-
Total assets	\$ 1,299	\$ 5,875	\$ 5,719	\$ 1,455
LIABILITIES				
Accounts payable	\$ 110	\$ 1,646	\$ 1,707	\$ 49
Amounts held in custody for others	1,187	9,217	8,998	1,406
Securities lending liability	2	-	2	-
Total liabilities	\$ 1,299	\$ 10,863	\$ 10,707	\$ 1,455

(Continued on Next Page)

FUND	BALANCE JUNE 30, 2006	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2007
CHILD SUPPORT COLLECTIONS:				
ASSETS				
Cash/cash equivalents	\$ 788	\$ 78,564	\$ 78,511	\$ 841
Receivables (net)	366	-	80	286
Total assets	\$ 1,154	\$ 78,564	\$ 78,591	\$ 1,127
LIABILITIES				
Accounts payable	\$ 120	\$ 42,614	\$ 42,648	\$ 86
Amounts held in custody for others	1,034	78,399	78,392	1,041
Total liabilities	\$ 1,154	\$ 121,013	\$ 121,040	\$ 1,127
UNCLEARED COLLECTIONS:				
ASSETS				
Cash/cash equivalents	\$ 234	\$ 13,558,556	\$ 13,558,408	\$ 382
Receivables (net)	-	164,074	164,074	-
Investments	-	184	184	-
Equity in pooled investments	-	1,800	1,800	-
Total assets	\$ 234	\$ 13,724,614	\$ 13,724,466	\$ 382
LIABILITIES				
Accounts payable	\$ 226	\$ 2,776	\$ 2,671	\$ 331
Amounts held in custody for others	8	14,283	14,240	51
Total liabilities	\$ 234	\$ 17,059	\$ 16,911	\$ 382
INTERGOVERNMENTAL:				
ASSETS				
Cash/cash equivalents	\$ 137	\$ 2,453	\$ 2,440	\$ 150
Receivables (net)	-	5	5	-
Total assets	\$ 137	\$ 2,458	\$ 2,445	\$ 150
LIABILITIES				
Accounts payable	\$ 99	\$ 2,361	\$ 2,352	\$ 108
Amounts held in custody for others	38	1,751	1,747	42
Total liabilities	\$ 137	\$ 4,112	\$ 4,099	\$ 150
DEBT COLLECTION:				
ASSETS				
Cash/cash equivalents	\$ 231	\$ 2,988	\$ 3,111	\$ 108
Receivables (net)	13	2	1	14
Total assets	\$ 244	\$ 2,990	\$ 3,112	\$ 122
LIABILITIES				
Accounts payable	\$ -	\$ 3,318	\$ 3,318	\$ -
Amounts held in custody for others	244	2,409	2,531	122
Total liabilities	\$ 244	\$ 5,727	\$ 5,849	\$ 122

(Continued on Next Page)

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - Continued
AGENCY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

(amounts expressed in thousands)

FUND	BALANCE JUNE 30, 2006	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2007
MILK PASSTHROUGH:				
ASSETS				
Cash/cash equivalents	\$ 54	\$ 718	\$ 768	\$ 4
Total assets	\$ 54	\$ 718	\$ 768	\$ 4
LIABILITIES				
Accounts payable	\$ -	\$ 767	\$ 767	\$ -
Amounts held in custody for others	54	718	768	4
Total liabilities	\$ 54	\$ 1,485	\$ 1,535	\$ 4

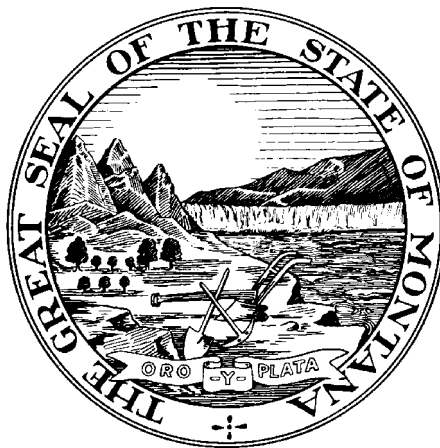
TOTAL - ALL AGENCY FUNDS
ASSETS

Cash/cash equivalents	\$ 5,835	\$ 14,476,966	\$ 14,475,753	\$ 7,048
Receivables (net)	408	164,192	164,284	316
Investments	-	1,800	1,800	-
Securities lending collateral	2	-	2	-
Other assets	10,592	2,019	237	12,374
Total assets	\$ 16,837	\$ 14,644,977	\$ 14,642,076	\$ 19,738

LIABILITIES

Accounts payable	\$ 667	\$ 71,120	\$ 71,168	\$ 619
Amounts held in custody for others	16,168	835,588	832,637	19,119
Securities lending liability	2	-	2	-
Total liabilities	\$ 16,837	\$ 906,708	\$ 903,807	\$ 19,738

STATISTICAL SECTION



SCHEDULE 1 – NET ASSETS BY COMPONENT

Last Six Fiscal Years

(accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Governmental activities						
Invested in capital assets, net of related debt	\$ 814,026	\$2,049,489	\$2,250,177	\$2,528,808	\$2,842,708	\$3,115,260
Restricted	1,742,193	1,817,193	1,858,088	2,159,185	2,202,592	2,347,395
Unrestricted	140,044	177,161	222,829	404,724	647,182	675,752
Total governmental activities net assets	\$2,696,263	\$4,043,843	\$4,331,094	\$5,092,717	\$5,692,482	\$6,138,407
Business-type activities						
Invested in capital assets, net of related debt	\$ 12,496	\$ 9,084	\$ 8,925	\$ 9,670	\$ 8,703	\$ 8,698
Restricted	203,710	202,268	212,473	240,514	269,687	314,722
Unrestricted	17,223	19,251	14,909	16,672	18,539	11,761
Total business-type activities net assets	\$ 233,429	\$ 230,603	\$ 236,307	\$ 266,856	\$ 296,929	\$ 335,181
Primary government						
Invested in capital assets, net of related debt	\$ 826,522	\$2,058,573	\$2,259,102	\$2,538,478	\$2,851,411	\$3,123,958
Restricted	1,945,903	2,019,461	2,070,561	2,399,699	2,472,279	2,662,117
Unrestricted	157,267	196,412	237,738	421,396	665,721	687,513
Total primary government net assets	\$2,929,692	\$4,274,446	\$4,567,401	\$5,359,573	\$5,989,411	\$6,473,588

Source: Statewide Accounting, Budgeting, and Human Resource System

Note: The State did not begin reporting government-wide statements until it implemented GASB Statement 34 in fiscal year 2002.

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SCHEDULE 2 – CHANGE IN NET ASSETS

Last Six Fiscal Years

(accrual basis of accounting, amounts expressed in thousands)

Expenses	Fiscal Year				
	2002	2003	2004	2005	2006
Governmental activities:					
General government	\$ 248,089	\$ 280,740	\$ 285,781	\$ 305,819	\$ 525,981
Public safety/corrections	205,983	194,885	227,786	258,610	245,810
Transportation	169,282	286,181	400,034	281,074	216,942
Health/social services	1,086,012	1,023,893	1,109,045	1,182,281	1,270,056
Education/cultural	845,324	899,575	874,846	900,542	976,046
Resource/recreation/environment	108,642	234,848	258,057	197,539	142,460
Economic development/assistance	164,761	169,270	144,687	144,777	150,449
Interest on long-term debt	22,763	19,910	15,088	14,375	19,569
Total governmental activities expenses	2,850,856	3,109,302	3,315,324	3,285,017	3,547,313
Business-type activities:					
Unemployment Insurance	83,944	92,639	93,882	75,291	72,661
Liquor Stores	38,074	40,097	42,827	45,503	50,514
State Lottery	26,585	27,320	28,669	27,681	31,020
Economic Development Bonds	3,251	2,426	2,197	2,630	3,441
Hail Insurance	2,045	2,029	1,949	3,153	4,632
General Government Services	11,134	14,177	48,395	50,329	51,017
Prison Funds	5,444	4,515	4,244	5,268	5,356
MUS Group Insurance	34,594	35,906	39,690	40,524	52,139
MUS Workers Compensation	-	-	2,552	2,842	2,978
Total business-type activities expenses	205,071	219,109	264,405	253,221	273,758
Total primary government expenses	\$ 3,055,927	\$ 3,328,411	\$ 3,579,729	\$ 3,538,238	\$ 3,821,071
Program Revenues					
Governmental activities:					
Charges for services:					
General government	\$ 38,368	\$ 42,849	\$ 59,384	\$ 49,637	\$ 59,166
Public safety/corrections	122,840	124,901	159,397	146,746	150,787
Transportation	32,269	61,316	33,943	38,101	31,766
Health/social services	40,847	31,074	32,983	31,467	30,022
Education/cultural	69,242	69,228	28,922	30,499	107,096
Resource/recreation/environment	45,787	67,380	137,714	121,539	77,064
Economic development/assistance	15,261	17,835	22,102	25,995	31,866
Operating grants and contributions	1,080,374	1,170,703	1,271,515	1,391,026	1,371,109
Capital grants and contributions	280,489	308,021	290,045	319,434	305,345
Total governmental activities program revenues	1,725,477	1,893,757	2,034,005	2,154,444	2,164,221
Business-type activities:					
Charges for services:					
Unemployment Insurance	59,771	66,493	67,873	72,866	76,754
Liquor Stores	45,630	46,955	49,521	52,081	58,975
State Lottery	33,670	34,696	36,740	33,815	39,923
Economic Development Bonds	13	19	8	5	7
Hail Insurance	301	2,568	3,748	7,404	3,057
General Government Services	11,202	12,658	13,197	14,244	15,589
Prison Funds	5,583	4,371	5,140	5,233	5,717
MUS Group Insurance	33,601	38,743	42,252	47,739	54,164
MUS Workers Compensation	-	-	2,424	2,978	3,543
Operating grants and contributions	29,335	10,442	55,487	58,433	58,051
Capital grants and contributions	602	510	177	159	378
Total business-type activities program revenues	219,708	217,185	493,752	294,957	316,158
Total primary government program revenues	\$ 1,945,257	\$ 2,110,942	\$ 2,527,757	\$ 2,449,401	\$ 2,480,379

Fiscal Year
2007
\$ 450,646
293,193
197,510
1,266,098
1,065,504
256,751
152,154
19,418
<hr/> 3,701,274
72,378
55,521
30,416
4,167
4,663
53,851
6,487
58,532
2,647
<hr/> 288,662
<hr/> \$ 3,989,936

\$ 61,713
153,577
34,963
30,547
96,903
80,320
38,441
1,395,324
325,352
<hr/> 2,217,140

83,661
63,943
41,567
22
6,042
18,176
5,600
57,159
4,047
64,691
171
<hr/> 345,079
<hr/> \$ 2,562,219

SCHEDULE 2 – CHANGE IN NET ASSETS - Continued

Last Six Fiscal Years

(accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year				
	2002	2003	2004	2005	2006
Net (expense)/revenue					
Governmental activities	\$(1,125,379)	\$(1,215,545)	\$(1,281,319)	\$(1,130,573)	\$(1,383,092)
Business-type activities	14,637	(1,924)	229,347	41,736	42,400
Total primary government net expense	\$(1,110,742)	\$(1,217,469)	\$(1,051,972)	\$(1,088,837)	\$(1,340,692)
General Revenues and Other Changes in Net Assets					
Governmental activities:					
Taxes					
Property	\$ 167,488	\$ 170,803	\$ 164,505	\$ 186,229	\$ 194,617
Fuel	191,248	190,030	198,332	190,897	212,276
Natural resource	96,336	111,776	131,053	191,723	260,382
Individual income	525,647	540,926	619,043	729,459	760,981
Corporate income	69,176	44,394	69,685	101,834	153,574
Other	188,256	201,929	253,953	257,526	289,978
Unrestricted grants and contributions	-	-	-	-	4,158
Settlements	58,549	35,754	25,181	28,313	28,248
Unrestricted investment earnings	151,716	206,970	32,734	52,792	36,188
Gain on sale of capital assets	(7,532)	311	204	34	53
Miscellaneous	4,460	24,045	6,412	4,358	4,741
Transfers	26,756	32,366	30,812	29,871	34,802
Total governmental activities	1,472,100	1,559,844	1,531,914	1,773,036	1,979,998
Business-type activities:					
Taxes					
Other	12,907	13,650	14,621	15,624	17,317
Settlements	-	-	-	-	-
Unrestricted investment earnings	16,382	16,028	319	190	1,016
Gain on sale of capital assets	(3)	-	-	-	-
Miscellaneous	1,040	5,750	9,956	2,945	4,146
Transfers	(26,756)	(32,366)	(30,812)	(29,871)	(34,802)
Total business-type activities	3,570	3,062	(5,916)	(11,112)	(12,323)
Total primary government	1,475,670	1,562,906	1,525,998	1,761,924	1,967,675
Change in Net Assets					
Governmental activities	346,721	344,299	250,595	642,463	596,906
Business-type activities	18,207	1,138	223,431	30,624	30,077
Total primary government	\$ 364,928	\$ 345,437	\$ 474,026	\$ 673,087	\$ 626,983

Source: Statewide Accounting, Budgeting, and Human Resource System

Note: The State did not begin reporting government-wide statements until it implemented GASB Statement 34 in fiscal year 2002.

Fiscal Year
2007
\$(1,484,134)
56,417
<u>\$(1,427,717)</u>

\$ 206,527
210,573
276,793
819,473
183,913
309,232
3,911
27,853
78,032
-
10,823
3,050
41,080
<u>2,171,260</u>

19,046
10
569
-
1,953
<u>(41,080)</u>
<u>(19,502)</u>
<u>2,151,758</u>

687,126
36,915
<u>\$ 724,041</u>

SCHEDULE 3 – FUND BALANCES, GOVERNMENTAL FUNDS

Last Six Fiscal Years

(modified accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
General Fund						
Reserved	\$ 7,927	\$ 8,056	\$ 8,903	\$ 10,118	\$ 11,533	\$ 20,498
Unreserved	81,316	43,065	132,873	289,675	408,580	549,158
Total general fund	\$ 89,243	\$ 51,121	\$ 141,776	\$ 299,793	\$ 420,113	\$ 569,656
All other governmental funds						
Reserved	\$1,512,978	\$1,650,265	\$2,199,647	\$2,421,876	\$2,431,304	\$2,529,131
Unreserved, reported in:						
Special revenue funds	437,188	501,679	(83,891)	(51,010)	(53,266)	(48,292)
Debt service funds	21,985	10,731	7,003	5,456	6,783	5,920
Capital project funds	13,487	16,935	10,661	8,721	47,272	37,735
Total all other governmental funds	\$1,985,638	\$2,179,610	\$2,133,420	\$2,385,043	\$2,432,093	\$2,524,494

Source: Statewide Accounting, Budgeting, and Human Resource System

Note: Due to changes in the State's fund structure initiated when GASB Statement 34 was implemented, the fund balance information is available beginning in fiscal year 2002.

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SCHEDULE 4 – CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS

Last Six Fiscal Years

(modified accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year				
	2002	2003	2004	2005	2006
Revenues					
Licenses/permits	\$ 202,490	\$ 210,611	\$ 240,612	\$ 245,244	\$ 259,073
Taxes	1,229,613	1,250,187	1,416,392	1,627,858	1,880,838
Charges for services/fines/forfeits/settlements	172,326	157,937	200,590	145,235	162,520
Investment earnings	145,984	204,406	49,363	143,937	62,977
Sale of documents/merchandise/property	15,571	13,104	31,687	22,655	21,412
Rentals/leases/royalties	24,438	28,324	22,868	43,723	63,318
Grants/contracts/donations	20,864	24,560	27,984	27,984	25,987
Federal	1,342,612	1,488,048	1,518,634	1,583,989	1,612,717
Other revenues	15,011	32,927	32,042	17,253	20,989
Total revenues	3,168,909	3,410,100	3,514,220	3,857,878	4,109,831
Expenditures					
General government	228,772	239,707	252,486	293,808	466,886
Public safety/corrections	189,507	189,302	208,593	238,929	254,381
Transportation	440,172	510,866	529,555	523,022	559,695
Health/social services	1,079,303	1,018,333	1,114,064	1,186,462	1,274,947
Education/cultural	861,034	894,591	898,988	905,150	976,446
Resource/recreation/environment	111,388	184,359	250,590	206,903	204,413
Economic development/assistance	163,895	168,007	144,381	146,306	151,020
Debt service:					
Principal retirement	36,758	39,002	25,217	27,203	32,546
Interest/fiscal charges	19,780	18,166	14,812	14,171	20,745
Capital outlay	65,056	63,073	60,310	70,851	69,505
Securities lending	3,936	1,734	1,784	4,905	7,663
Total expenditures	3,199,601	3,327,140	3,500,780	3,617,710	4,018,247
Excess of revenue over (under) expenditures	(30,692)	82,960	13,440	240,168	91,584
Other financing sources (uses)					
Loan proceeds	2,132	2,235	-	-	-
Bonds issued	1,785	31,360	5,790	135,380	37,050
Refunding bonds issued	33,605	44,385	20,235	30,070	-
Bond premium	(139)	1,655	478	8,106	2,178
Payment to refunding bond escrow agent	(34,756)	(44,408)	(20,214)	(31,018)	-
Inception of lease/installment contract	482	321	1,297	517	876
Insurance proceeds	-	-	-	-	327
General capital asset sale proceeds	310	312	270	169	164
Transfers in	321,362	231,890	239,638	273,651	292,130
Transfers out	(296,729)	200,605	(210,166)	(244,868)	(259,247)
Total other financing sources (uses)	28,052	67,145	37,328	172,007	73,478
Net change in fund balances	\$ (2,640)	\$ 150,105	\$ 50,678	\$ 412,175	\$ 165,062
Debt service as a percentage of noncapital expenditures	2.0%	1.8%	1.2%	1.3%	1.6%

Source: Statewide Accounting, Budgeting, and Human Resource System

Note: Due to changes in the State's fund structure initiated when GASB Statement 34 was implemented, the fund balance information is available beginning in fiscal year 2002.

Fiscal Year
2007

\$ 285,890

2,009,620

160,571

171,047

20,460

51,442

25,362

1,586,206

17,280

4,327,878

401,331

284,777

575,157

1,267,854

1,050,239

247,090

152,442

33,103

19,080

95,834

5,261

4,132,168

195,710

-

-

16,740

946

(17,504)

49

115

10,946

306,867

(269,595)

48,564

\$ 244,274

1.4%

SCHEDULE 5 – PERSONAL INCOME BY INDUSTRY

Last Ten Calendar Years

(amounts expressed in thousands)

	Calendar Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Farm Earnings	\$ 329,061	\$ 336,530	\$ 390,893	\$ 243,540	\$ 286,085	\$ 179,587	\$ 356,957	\$ 436,348	\$ 486,206	\$ 183,348
Agricultural/forestry, fishing, and other	87,637	116,033	140,509	153,663	189,345	176,468	197,423	183,939	193,989	216,479
Mining	331,039	334,151	353,488	378,056	455,664	437,359	453,988	557,542	648,652	752,363
Construction/utilities	862,422	949,346	1,019,946	1,013,657	1,134,142	1,150,017	1,286,800	1,418,735	1,661,390	1,827,251
Manufacturing	932,489	1,012,992	990,870	1,056,316	994,677	972,587	970,138	1,067,552	1,152,902	1,208,676
Transportation and public utilities	1,018,457	1,064,492	1,105,624	1,149,160	939,462	957,401	980,540	1,085,381	1,167,704	1,248,116
Wholesale trade	624,993	654,840	675,370	697,897	630,434	660,867	692,618	757,944	816,656	879,028
Retail trade	1,425,510	1,481,694	1,538,007	1,639,454	1,425,133	1,489,275	1,521,505	1,574,439	1,646,108	1,746,519
Finance, insurance, and real estate	686,853	784,026	856,974	972,587	1,315,939	1,244,419	1,247,036	1,455,025	1,508,587	1,601,476
Services	3,007,741	3,258,980	3,457,003	3,742,485	4,789,559	5,056,160	5,299,448	5,682,218	6,116,027	6,609,920
Federal, civilian	701,314	721,427	733,730	842,339	851,497	913,187	973,870	1,046,741	1,087,253	1,142,238
Military	234,031	240,428	252,917	261,623	278,212	335,236	398,500	426,432	449,816	450,465
State and local government	1,901,826	1,977,542	2,051,609	2,170,150	2,290,747	2,400,623	2,579,116	2,665,737	2,824,922	3,001,148
Other (1)	5,544,887	5,924,147	5,805,624	6,395,293	6,778,287	6,845,808	7,219,252	7,455,859	7,552,999	8,308,800
Total personal income	\$17,688,260	\$18,856,628	\$19,372,564	\$20,716,220	\$22,359,183	\$22,818,994	\$24,177,191	\$25,813,892	\$27,313,211	\$29,175,827

Average effective rate (2)

2.3%

2.4%

2.5%

2.5%

2.5%

2.3%

2.2%

2.3%

2.6%

2.6%

Sources: Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce
Montana Department of Revenue

Notes: Numbers include revised state personal income estimates for 2004-2006 released on September 20, 2007.

(1) Includes dividends, interest, rental income, residence adjustment, government transfers to individuals, and deductions for social insurance

(2) The total direct rate for personal income is not available. Average effective rate equals personal income tax revenue (Schedule 6) divided by personal income.

SCHEDULE 6 – PERSONAL INCOME TAX RATES

Last Ten Calendar Years

(amounts expressed in thousands)

	Calendar Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Personal income tax revenue (1)	\$406,276	\$444,160	\$483,032	\$516,262	\$556,015	\$517,568	\$535,831	\$605,348	\$712,281	\$768,912
Personal income	\$17,688,260	\$18,856,628	\$19,372,564	\$20,716,220	\$22,359,183	\$22,818,994	\$24,177,191	\$25,813,892	\$27,313,211	\$29,175,827
Average effective rate (2)	2.3%	2.4%	2.5%	2.5%	2.5%	2.3%	2.2%	2.3%	2.6%	2.6%

Tax Rates on the Portion of Taxable Income in Ranges (3)											
Calendar Year 1997											
Tax Rate	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%	
Income Bracket	\$0-1.9	\$1.9-3.9	\$3.9-7.8	\$7.8-11.6	\$11.6-15.5	\$15.5-19.4	\$19.4-27.2	\$27.2-38.8	\$38.8-67.9	\$67.9 +	
Calendar Year 1998											
Tax Rate	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%	
Income Bracket	\$0-2	\$2-3.9	\$3.9-7.9	\$7.9-11.8	\$11.8-15.8	\$15.8-19.7	\$19.7-27.6	\$27.6-39.4	\$39.4-69	\$69 +	
Calendar Year 1999											
Tax Rate	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%	
Income Bracket	\$0-2	\$2-4	\$4-8	\$8-12.1	\$12.1-16.1	\$16.1-20.1	\$20.1-28.2	\$28.2-40.2	\$40.2-70.4	\$70.4 +	
Calendar Year 2000											
Tax Rate	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%	
Income Bracket	\$0-2.1	\$2.1-4.2	\$4.2-8.3	\$8.3-12.5	\$12.5-16.7	\$16.7-20.8	\$20.8-29.2	\$29.2-41.7	\$41.7-73	\$73 +	
Calendar Year 2001											
Tax Rate	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%	
Income Bracket	\$0-2.2	\$2.2-4.3	\$4.3-8.6	\$8.6-12.9	\$12.9-17.2	\$17.2-21.5	\$21.5-30.2	\$30.2-43.1	\$43.1-75.4	\$75.4 +	
Calendar Year 2002											
Tax Rate	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%	
Income Bracket	\$0-2.2	\$2.2-4.4	\$4.4-8.7	\$8.7-13.1	\$13.1-17.4	\$17.4-21.8	\$21.8-30.5	\$30.5-43.5	\$43.5-76.2	\$76.2 +	
Calendar Year 2003											
Tax Rate	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%	
Income Bracket	\$0-2.2	\$2.2-4.4	\$4.4-8.9	\$8.9-13.3	\$13.3-17.8	\$17.8-22.2	\$22.2-31.1	\$31.1-44.5	\$44.5-77.8	\$77.8 +	
Calendar Year 2004											
Tax Rate	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%	
Income Bracket	\$0-2.3	\$2.3-4.6	\$4.6-9.2	\$9.2-13.8	\$13.8-18.4	\$18.4-22.9	\$22.9-32.1	\$32.1-45.9	\$45.9-80.3	\$80.3 +	
Calendar Year 2005											
Tax Rate	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.9%	6.9%	6.9%	6.9%	
Income Bracket	\$0-2.3	\$2.3-4.1	\$4.1-6.2	\$6.2-8.4	\$8.4-10.8	\$10.8-13.9	\$13.9 +	\$13.9 +	\$13.9 +	\$13.9 +	
Calendar Year 2006											
Tax Rate	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.9%	6.9%	6.9%	6.9%	
Income Bracket	\$0-2.4	\$2.4-4.3	\$4.3-6.5	\$6.5-8.8	\$8.8-11.3	\$11.3-14.5	\$14.5 +	\$14.5 +	\$14.5 +	\$14.5 +	

Sources: Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce; Montana Department of Revenue

Notes: Numbers include revised state personal income estimates for 2004-2006 released on September 20, 2007.

(1) Personal income tax revenue is reported on a fiscal year basis.

(2) Average effective rate equals personal income tax revenue divided by personal income.

(3) Amounts shown are for single and married filing separate returns. For all other filing status returns, double the income amounts in the columns.

SCHEDULE 7 – PERSONAL INCOME TAX FILERS AND LIABILITY BY INCOME LEVEL

Latest Completed Calendar Year and Nine Years Ago

Income Level	Calendar Year 1997				Calendar Year 2006			
	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$9,999 and under	95,621	26.70%	\$ 3,412,980	0.86%	81,332	19.73%	\$ 1,303,977	0.17%
\$10,000–\$19,999	76,821	21.45	16,866,784	4.23	74,410	18.05	11,575,571	1.58
\$20,000–\$44,999	105,184	29.38	83,039,247	20.82	114,626	27.81	80,068,520	10.95
\$45,000–\$69,999	50,252	14.04	94,400,228	23.66	65,484	15.87	112,294,264	15.35
\$70,000–\$109,999	20,013	5.59	68,240,613	17.11	48,467	11.75	151,375,825	20.69
\$110,000–\$174,999	6,086	1.70	40,633,483	10.19	17,118	4.15	98,072,544	13.41
\$175,000–\$499,999	3,483	0.97	53,833,183	13.49	8,986	2.18	120,989,965	16.54
\$500,000 and higher	530	0.17	38,528,811	9.64	1,979	0.46	155,753,239	21.31
Total	357,990	100.00%	\$398,955,329	100.00%	412,402	100.00%	\$731,433,905	100.00%

Source: Montana Department of Revenue

Note: Due to confidentiality issues, the names of the ten largest revenue payers are not available. The categories presented above are intended to provide alternate information regarding the sources of the State's revenue.

SCHEDULE 8 – RATIOS OF OUTSTANDING DEBT BY TYPE

Last Six Fiscal Years

(amounts expressed in thousands, except per capita amount, in dollars)

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Governmental activities						
General obligation bonds	\$214,135	\$227,625	\$219,645	\$213,195	\$230,065	\$208,015
Special revenue bonds	100,337	85,070	76,368	192,775	181,770	171,080
Notes payable	23,203	21,299	12,807	12,439	12,099	11,755
Lease/installment purchase payable	3,652	3,286	2,332	2,705	2,459	1,057
Total governmental activities	\$341,327	\$337,280	\$311,152	\$421,114	\$426,393	\$391,907
Business-type activities						
Bonds/notes payable	\$ 13,914	\$ 10,376	\$ 7,942	\$ 5,168	\$ 3,936	\$ 3,107
Total business-type activities	\$ 13,914	\$ 10,376	\$ 7,942	\$ 5,168	\$ 3,936	\$ 3,107
Total primary government	\$355,421	\$347,656	\$319,094	\$426,282	\$430,329	\$395,014
Debt as a percentage of personal income (1)	1.6%	1.5%	1.3%	1.7%	1.6%	1.4%
Amount of debt per capita (2)	\$391	\$379	\$345	\$456	\$455	\$417

Source: Statewide Accounting, Budgeting, and Human Resource System

Notes: The schedule information is available beginning in fiscal year 2002, the year GASB Statement 34 was implemented. Details regarding the State's debt can be found in Note 11 of the financial statements.

(1) Debt as a percentage of personal income equals total debt divided by total personal income from Schedule 5. Used calendar year 2006 personal income for fiscal year 2007 debt percentage calculation. Numbers revised for prior years due to personal income estimate revisions.

(2) Amount of debt per capita is calculated by dividing total debt by total population from Schedule 11. State population for 2007 is based on a U.S. Census Bureau interim population projection. Numbers revised for prior years due to population estimate revisions.

SCHEDULE 9 – PLEDGED REVENUE COVERAGE

Last Ten Fiscal Years

(amounts expressed in thousands)

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Governmental Activities										
Renewable Resource Program Bond										
Revenue										
Loan repayment (principal and interest)	\$3,507	\$3,395	\$4,361	\$3,317	\$3,933	\$3,464	\$3,643	\$ 4,247	\$3,036	\$2,576
Northwestern Energy	2,455	2,648	2,747	2,269	2,026	2,535	2,348	2,623	2,800	3,057
STIP interest earnings	-	-	-	-	-	59	119	100	176	460
Debt service fund interest	-	-	-	-	-	72	53	131	877	528
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	\$5,962	\$6,043	\$7,108	\$5,586	\$5,959	\$6,130	\$6,163	\$7,101	\$6,889	\$6,621
Debt service										
Principal	\$2,445	\$2,695	\$3,805	\$2,910	\$3,205	\$4,040	\$4,535	\$10,515	\$4,630	\$3,095
Interest	\$3,507	\$3,381	\$3,225	\$3,030	\$1,714	\$1,975	\$1,919	\$ 1,719	\$1,476	\$1,357
Coverage (1)	1.0	1.0	1.0	0.9	1.2	1.0	1.0	0.6	1.1	1.5
	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Governmental Activities										
Transportation Refunding Bond										
Revenue										
Motor fuel taxes	\$ 169,447	\$ 171,265	\$ 178,938	\$ 174,299	\$ 180,600	\$ 181,758	\$ 188,754			
Gross vehicle weight fees	30,038	30,983	33,935	31,555	26,425	25,339	26,308			
Other	1,907	9,056	5,141	6,408	6,211	4,132	41,715			
Less: Operating expenses	(192,175)	(210,797)	(226,147)	(212,237)	(202,624)	(199,193)	(281,286)			
Net available revenue	\$ 9,217	\$ 507	\$ (8,133)	\$ 25	\$ 10,612	\$ 12,036	\$ (24,509)			
Debt service										
Principal	\$ 11,795	\$ 10,865	\$ 11,355	\$ 11,885	\$ 12,470	\$ 13,095	\$ 3,705			
Interest	\$ 3,419	\$ 2,826	\$ 2,315	\$ 1,757	\$ 1,154	\$ 514	\$ 94			
Coverage (1)	0.6	0.0	(0.6)	0.0	0.8	0.9	(6.5)			

SCHEDULE 9 – PLEDGED REVENUE COVERAGE - Continued
 Last Ten Fiscal Years
(amounts expressed in thousands)

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Governmental Activities										
Tongue River Dam Project Note Payable										
Revenue										
Tongue River Water Users Assoc loan payments			\$128	\$128	\$128	\$128	\$128	\$128	\$128	\$128
Revenue from sale of electricity			162	162	162	162	162	162	162	162
Less: Operating expenses			-	-	-	-	-	-	-	-
Net available revenue			\$290	\$290	\$290	\$290	\$290	\$290	\$290	\$290
Debt service										
Principal			\$290	\$290	\$290	\$290	\$290	\$290	\$290	\$290
Interest			-	-	-	-	-	-	-	-
Coverage (1)			1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Governmental Activities										
Water Conservation Note Payable										
(Little Dry Project)										
Revenue										
Little Dry Water Users Assoc loan payments	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3
Debt service										
Principal	\$1	\$2	\$2	\$2	\$2	\$2	\$2	\$2	\$2	\$2
Interest	\$2	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1
Coverage (1)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

SCHEDULE 9 – PLEDGED REVENUE COVERAGE - Continued

Last Ten Fiscal Years

(amounts expressed in thousands)

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Governmental Activities										
Water Conservation Note Payable										
(Petrolia Project)										
Revenue										
Petrolia Irrigation District loan payments	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3
Debt service										
Principal	\$1	\$1	\$1	\$1	\$1	\$2	\$2	\$2	\$2	\$2
Interest	\$2	\$2	\$2	\$2	\$2	\$1	\$1	\$1	\$1	\$1
Coverage (1)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Business-type Activities										
Economic Development Bonds										
(Municipal Finance Consolidation Irrigation Dist)										
Revenue										
Principal and interest repayments					\$284		\$512	\$71		
Investment income					5		3	5		
Less: Operating expenses					-		-	-		
Net available revenue					\$289		\$515	\$76		
Debt service										
Principal					\$325		\$450	\$40		
Interest					\$ 81		\$ 30	\$31		
Coverage (1)					0.7		1.1	1.1		

SCHEDULE 9 – PLEDGED REVENUE COVERAGE - Continued
 Last Ten Fiscal Years
(amounts expressed in thousands)

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Business-type Activities										
Economic Development Bonds										
(Conservation Reserve Enhancement Program)										
Revenue										
Principal and interest repayments								\$2,135	\$1,765	\$2,173
Investment income								4	9	16
Less: Operating expenses								-	-	-
Net available revenue								\$2,139	\$1,774	\$2,189
Debt service										
Principal								\$1,937	\$1,475	\$1,924
Interest								\$ 263	\$ 201	\$ 216
Coverage (1)								1.0	1.1	1.0

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Business-type Activities										
Economic Development Bonds										
(Municipal Finance Consolidation Act Bonds)										
Revenue										
Principal and interest repayments								\$300		
Investment income								-		
Less: Operating expenses								-		
Net available revenue								\$300		
Debt service										
Principal								\$294		
Interest								\$ 1		
Coverage (1)								1.0		

SCHEDULE 9 – PLEDGED REVENUE COVERAGE - Continued

Last Ten Fiscal Years

(amounts expressed in thousands)

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Business-type Activities										
MUS Workers Compensation Bonds Payable										
Revenue										
Workers compensation premiums							\$ 2,424	\$ 2,978	\$ 3,543	\$ 4,047
Less: Operating expenses							(2,489)	(2,785)	(2,932)	(2,614)
Net available revenue							\$ (65)	\$ 193	\$ 611	\$ 1,433
Debt service										
Principal							\$ 395	\$ 395	\$ 410	\$ 430
Interest							\$ 48	\$ 46	\$ 34	\$ 22
Coverage (1)							(0.1)	0.4	1.4	3.2

Sources: Montana Departments of Commerce (Board of Investments), Natural Resources and Conservation, Transportation
Montana University System

Note: (1) Coverage equals net available revenue divided by debt service.

(2) In fiscal year 2007, the Montana Department of Transportation revised data for fiscal year 2006.

SCHEDULE 10 – RATIOS OF GENERAL BONDED DEBT OUTSTANDING

Last Six Fiscal Years

(amounts expressed in thousands, except per capita amount, in dollars)

Fiscal Year	General Obligation Bonds	Less: Amounts Available in Debt Service Funds	Total	Percentage of Personal Income (1)	Debt Per Capita (2)
2002	\$214,135	\$15,327	\$198,808	0.87%	\$218
2003	227,625	14,304	213,321	0.88%	233
2004	219,645	14,946	204,699	0.79%	221
2005	213,195	12,957	200,238	0.73%	214
2006	230,065	13,700	216,365	0.74%	229
2007	208,015	15,471	192,544	0.66%	203

Source: Statewide Accounting, Budgeting, and Human Resource System

Notes: The schedule information is available beginning in fiscal year 2002, the year GASB Statement 34 was implemented. Details regarding the State's debt can be found in Note 11 of the financial statements.

- (1) Debt as a percentage of personal income equals total debt divided by total personal income from Schedule 5.
Used calendar year 2006 personal income for fiscal year 2007 debt percentage calculation.
Numbers revised for prior years due to personal income estimate revisions.
- (2) Debt per capita is calculated by dividing total debt by total population from Schedule 11.
State population for 2007 is based on a U.S. Census Bureau interim population projection.
Numbers revised for prior years due to population estimate revisions.

SCHEDULE 11 – DEMOGRAPHIC AND ECONOMIC STATISTICS

Last Ten Calendar Years

	Calendar Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Population										
Montana (<i>in thousands</i>)	890	892	898	904	906	910	917	926	935	945
Percentage change	0.5%	0.2%	0.7%	0.7%	0.2%	0.4%	0.8%	1.0%	1.0%	1.1%
National (<i>in thousands</i>)	272,647	275,854	279,040	282,217	285,226	288,126	290,796	293,638	296,507	299,398
Percentage change	1.2%	1.2%	1.2%	1.1%	1.1%	1.0%	0.9%	1.0%	1.0%	1.0%
Total Personal Income										
Montana (<i>in millions</i>)	17,688	18,857	19,373	20,716	22,359	22,819	24,177	25,814	27,313	29,176
Percentage change	4.8%	6.6%	2.7%	6.9%	7.9%	2.1%	6.0%	6.8%	5.8%	6.8%
National (<i>in billions</i>)	6,907	7,416	7,796	8,422	8,717	8,873	9,150	9,711	10,284	10,967
Percentage change	6.1%	7.4%	5.1%	8.0%	3.5%	1.8%	3.1%	6.1%	5.9%	6.6%
Per Capital Personal Income										
Montana	19,877	21,130	21,585	22,929	24,676	25,065	26,360	27,866	29,220	30,886
Percentage change	4.4%	6.3%	2.2%	6.2%	7.6%	1.6%	5.2%	5.7%	4.9%	5.7%
National	25,334	26,883	27,939	29,845	30,574	30,810	31,466	33,072	34,685	36,629
Percentage change	4.8%	6.1%	3.9%	6.8%	2.4%	0.8%	2.1%	5.1%	4.9%	5.6%
Resident Civilian Labor Force and Employment										
Civilian labor force	450,235	459,925	464,782	469,083	470,262	466,787	466,967	477,876	481,103	496,584
Employed	426,363	434,076	440,063	446,742	449,175	445,739	446,183	457,609	462,238	480,760
Unemployed	23,872	25,849	24,719	22,341	21,087	21,048	20,784	20,267	18,865	15,824
Unemployment rate	5.3%	5.6%	5.3%	4.8%	4.5%	4.5%	4.5%	4.2%	3.9%	3.2%
Nonfarm Wage and Salary Workers (<i>in thousands</i>)										
Goods-producing industries										
Natural Resources and Mining	6.3	6.1	6.1	6.0	6.2	6.2	6.2	7.1	7.7	8.3
Construction	18.3	19.3	20.0	20.4	21.2	21.7	23.1	24.9	27.6	30.2
Durable goods	14.4	14.6	15.1	15.2	14.4	13.1	12.1	12.1	12.4	12.7
Nondurable goods	7.7	7.4	7.4	7.2	7.0	6.9	6.9	7.1	7.2	7.5
Subtotal goods-producing industries	46.7	47.4	48.6	48.8	48.8	47.9	48.3	51.2	54.9	58.7
Service-producing industries										
Transp, communications, and utilities	23.5	24.1	24.6	24.7	24.1	23.7	23.1	23.3	23.8	24.5
Trade	66.9	68.4	69.0	69.4	68.9	68.9	69.1	70.8	71.6	72.5
Finance, insurance, and real estate	17.1	17.6	18.1	18.5	18.8	19.3	20.3	21.1	21.4	22.3
Service	132.7	136.2	140.5	145.2	146.9	151.4	154.2	158.4	162.9	168.8
State and local government	66.8	68.4	69.3	70.6	70.7	71.1	72.0	72.9	72.7	73.8
Federal government	12.6	12.7	12.7	13.4	13.4	13.8	13.8	13.8	13.5	13.2
Subtotal service-producing industries	319.6	327.4	334.2	341.8	342.8	348.2	352.5	360.3	365.9	375.1
Total Nonfarm Wage and Salary Employment	366.3	374.8	382.8	390.6	391.6	396.1	400.8	411.5	420.8	433.8

Sources: Population Division, U.S. Census Bureau

Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce

Bureau of Labor Statistics, U.S. Department of Labor

Notes: Total personal income is comprised of earned income, dividends, interest and rents, and government transfer payments. Per capita income is calculated by dividing personal income by population; amounts may not be exact due to rounding.
Numbers for prior years revised due to releases of updated data.

SCHEDULE 12 – PRINCIPAL EMPLOYERS

Current Fiscal Year and Nine Fiscal Years Ago

Employer	1998			2007		
	Employees	Rank	Percentage of Total State Employment	Employees	Rank	Percentage of Total State Employment
State of Montana	18,500–19,000	1	5.04%	21,500–22,000	1	4.86%
Federal Government	13,500–14,000	2	3.64	14,000–14,500	2	3.18
Wal-Mart	N/A	4	—	4,000–4,500	3	0.99
Billings Deaconess Clinic	N/A	7	—	2,500–3,000	4	0.68
Town Pump	N/A	9	—	2,500–3,000	5	0.57
Albertson's	N/A	—	—	2,000–2,500	6	0.54
Better Business Systems	—	—	—	2,000–2,500	7	0.49
St. Vincent Healthcare	—	—	—	2,000–2,500	8	0.48
Benefis Healthcare	N/A	6	—	1,500–2,000	9	0.43
Stillwater Mining	—	—	—	1,500–2,000	10	0.36
Montana Power	N/A	3	—	—	—	—
Buttreys	N/A	5	—	—	—	—
Leavenworth Health Services	N/A	8	—	—	—	—
Plum Creek Timber	N/A	10	—	—	—	—

N/A = not available

Sources: Montana Department of Labor
Bureau of Labor Statistics, U.S. Department of Labor

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SCHEDULE 13 – FULL-TIME EQUIVALENT STATE EMPLOYEES BY FUNCTION/PROGRAM

Last Five Fiscal Years

Function/Program	Fiscal Year				
	2002	2003	2004	2005	2006
Governmental:					
General government	1,375	1,614	1,575	1,562	1,615
Public safety/corrections	1,925	1,937	1,930	1,955	2,048
Transportation	2,036	2,055	2,025	2,023	2,063
Health/social services	2,674	2,577	2,539	2,575	2,621
Education/cultural	416	429	402	407	428
Resource/recreation/environment	1,430	1,694	1,731	1,765	1,853
Economic development/assistance	912	884	925	952	965
Total governmental	10,768	11,190	11,127	11,239	11,593
Business-type:					
Liquor Stores	28	28	29	27	38
State Lottery	30	31	30	32	32
Economic Development Bonds	4	4	4	4	4
Hail Insurance	2	2	3	2	3
General Government Services	109	102	94	104	96
Prison Funds	38	35	31	32	34
MUS Group Insurance	3	3	3	2	3
MUS Workers Compensation	-	-	-	-	-
Total business-type	214	205	194	203	210
Fiduciary:					
Pension Trust	46	49	47	46	48
Total fiduciary	46	49	47	46	48
Component unit:					
Housing Authority	18	17	19	21	20
Facility Finance Authority	2	2	2	2	2
State Compensation Insurance (New Fund)	228	239	252	261	265
Montana State University	3,878	3,916	3,960	3,994	3,940
University of Montana	3,064	3,129	3,187	3,238	3,281
Total component unit	7,190	7,303	7,420	7,516	7,508
Total full-time equivalent employees	18,218	18,747	18,788	19,004	19,359

 Source: *Statewide Accounting, Budgeting, and Human Resource System*

 Note: *The number of full-time equivalent employees is presented by functional/programmatic categories consistent with the level of expense detail required by GASB Statement 34. Thus, the employee information is available beginning in fiscal year 2002.*

Fiscal Year
2007
1,552
2,176
2,031
2,587
432
1,825
913
11,516
39
32
6
3
103
34
4
1
222
46
46
19
2
279
4,056
3,364
7,720
19,504

SCHEDULE 14 – OPERATING INDICATORS BY FUNCTION/PROGRAM

Last Six Fiscal Years

Function/Program	Fiscal Year				
	2002	2003	2004	2005	2006
Governmental activities:					
General government					
Department of Revenue					
Electronically-filed income tax returns (1)	140,034	168,231	195,880	224,653	236,200
Paper-filed income tax returns (1)	290,009	265,998	243,247	200,102	203,100
Judiciary					
Supreme Court total filings (2)	798	860	882	738	760
District Court total filings (2)	33,443	37,456	38,579	38,619	42,000
Public safety/corrections					
Department of Corrections					
Incarcerated offenders	2,402	2,156	2,307	2,535	2,935
Supervised offenders	7,048	7,787	8,081	8,460	8,797
Department of Justice					
Driver's licenses issued	123,070	112,727	149,714	163,336	172,915
Vehicles registered (1)	1,117,152	1,153,352	1,262,990	972,849	1,550,713
Department of Military Affairs (Army Program Facilities Office)					
Work orders received	2,500	2,445	2,066	3,272	2,648
Work orders completed	1,950	2,102	1,555	2,843	2,349
Work orders unfunded or not completed	550	343	511	429	172
Transportation					
Department of Transportation					
Paved roads (miles)	18,980	18,998	19,017	19,020	19,050
Unpaved roads (miles)	51,717	51,641	51,624	51,623	55,281
Health/social services					
Department of Public Health and Human Services					
Senior citizens receiving personal long-term care assistance	2,856	2,707	2,801	2,808	2,869
Number of households provided with energy assistance	16,977	18,000	19,125	20,463	21,552
Education/cultural					
Office of Public Instruction					
K-12 public school enrollment	151,947	149,995	148,356	146,705	145,259
Public schools	877	866	859	852	840
Commissioner of Higher Education					
Total enrollment for Montana University System	28,795	29,184	29,520	29,122	29,181
Total enrollment for Colleges of Technology	3,295	3,489	3,663	3,641	3,910
Resource/recreation/environment					
Department of Natural Resources and Conservation					
Revenue generated on state trust lands (millions of dollars)	\$63.4	\$62.5	\$72.8	\$86.1	\$101.9
Oil production (millions of bbls)	16.05	18.1	19.9	20.9	36.2
Gas production (millions of mcf)	77.3	78.8	78.9	80.5	114.0
Department of Fish, Wildlife and Parks					
License and permit sales (3)	1,566,842	1,598,180	1,751,581	1,752,315	1,638,410
State park visitation (millions)	1.1	1.6	1.6	1.65	1.7

Fiscal Year
2007

253,696

207,569

N/A

N/A

2,608

9,838

181,804

1,581,727

3,386

2,781

1,373

19,447

54,883

2,838

19,254

144,418

831

29,140

4,033

\$103.6

37.2

118.0

1,718,902

1.85

SCHEDULE 14 – OPERATING INDICATORS BY FUNCTION/PROGRAM - Continued

Last Six Fiscal Years

Function/Program	Fiscal Year				
	2002	2003	2004	2005	2006
Governmental activities (continued):					
Resource/recreation/environment (continued)					
Department of Environmental Quality					
Environmental permit applications	3,819	5,047	5,192	6,245	8,044
Environmental violations	2,788	2,888	3,338	3,655	2,166
Economic development/assistance					
Department of Commerce (Community Development)					
Treasure State Endowment Project – applications	55	-	47	-	57
Treasure State Endowment Project – construction awards	-	40	-	40	N/A
Community Development Block Grant – public facility applications	8	13	10	14	11
Community Development Block Grant – public facility awards	8	12	7	8	7
Business-type activities:					
Unemployment Insurance					
Department of Labor					
Initial claims	58,821	60,300	56,743	50,216	46,697
Average weekly benefit (dollars)	\$185.67	\$195.43	\$200.93	\$209.37	\$202.67
Exhaustion rate (percent)	36.6%	36.4%	38.4%	32.7%	29.8%
Liquor Stores					
Department of Revenue					
Liquor licenses issued	2,210	2,157	2,233	2,262	2,267
Liquor cases distributed	463,881	490,153	513,885	535,635	578,111
State Lottery					
Department of Administration					
Total dollars in ticket sales (millions of dollars)	\$33.63	\$34.68	\$36.74	\$33.81	\$39.92
Transfer to the General Fund (millions of dollars)	\$7.47	\$7.45	\$8.11	\$7.2	\$9.11
General Government Services					
Department of Commerce (HUD Section 8)					
Applications reviewed – homebuyers assistance (dollars) (4)	-	\$1,608,335	\$1,531,543	\$2,290,100	\$466,115
Grants awarded – homebuyers assistance (dollars) (4)	-	\$1,608,335	\$1,531,543	\$1,547,323	\$466,115

N/A = not available

Sources: Governor's Office of Budget and Program Planning, Biennium Executive Budget
 Montana Departments of Administration, Justice, Military Affairs, and Transportation
 Montana Commissioner of Higher Education
 Unemployment Insurance Data Summary, Employment & Training Administration, U.S. Department of Labor

Notes: (1) Operating indicators for fiscal year 2007 are estimated.
 (2) Operating indicators are reported on a calendar-year basis.
 (3) Effective with fiscal year 2004, license and permit sales reported by license year.
 (4) As of July 2006, an additional \$483,917 in remaining Community Housing Development Organization (CHDO) set-aside funds was available in the second 2006 application round (deadline: August 1).

<u>Fiscal Year</u>
<u>2007</u>

8,222

3,271

N/A

56

17

8

47,147

\$225.00

32.1%

2,249

616,400

\$41.56

\$11.42

\$924,800

\$500,000

SCHEDULE 15 – CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM

Last Six Fiscal Years

Function/Program	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Governmental activities:						
General government						
Department of Administration						
Buildings	50	47	47	48	48	47
Data processing equipment	762	825	866	861	916	997
Judiciary						
Vehicles	10	50	57	63	61	52
Public safety/corrections						
Department of Corrections						
Vehicles	413	418	269	288	297	280
Buildings	160	149	155	152	155	151
Department of Justice						
Vehicles	389	395	396	401	409	422
Laboratory/scientific equipment	192	158	164	168	166	251
Transportation						
Department of Transportation						
Vehicles	4,233	4,055	4,027	4,006	4,032	4,173
Buildings	720	763	852	751	729	718
Health/social services						
Department of Public Health and Human Services						
Vehicles	318	333	323	331	330	204
Buildings	137	134	135	129	127	127
Education/cultural						
Historical Society						
Buildings	311	707	15	14	3	2
Resource/recreation/environment						
Department of Natural Resources and Conservation						
Vehicles	810	853	766	925	672	760
Buildings	182	181	179	179	177	183
Department of Fish, Wildlife and Parks						
Vehicles	1,305	1,226	1,238	1,462	1,610	1,693
Buildings	1,287	743	761	742	816	763
Department of Environmental Quality						
Vehicles	52	60	60	60	59	66
Laboratory/scientific equipment	239	246	131	141	124	130
Economic development/assistance						
Department of Commerce						
Buildings	7	9	685	685	258	257
Business-type activities:						
State Lottery						
Department of Administration						
Vehicles	15	17	14	12	14	14
General government services						
Department of Administration						
Vehicles	21	24	14	13	14	13
Prison funds						
Department of Corrections						
Vehicles	40	40	42	45	48	48

Sources: *Statewide Accounting, Budgeting, and Human Resource System*
Vehicle Exposure and Commercial Property Schedules, Risk Management and Tort Defense Division
Department of Administration

Note: *The schedule information is available beginning in fiscal year 2002, the year GASB Statement 34 was implemented.*